

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE
BRITISH COMMONWEALTH

CONTENTS

The Political Foundation for Disarmament

Shanghai

The Crisis and its Background

American Politics and the Hoover Plan

The Macmillan Report

Doubts and Difficulties in India

Great Britain The Narrow Way

Ireland Events in the Free State

Canada

Parliament and the Depression—The West

Australia Monetary Policy and Financial Reconstruction

South Africa

*The Session—The Statute of Westminster and the Privy
Council—The Union Census*

New Zealand

*Economic and Financial Legislation—The Position of
Parties—Unemployment—Wage Reductions—Defence—
The Tariff War with Canada*



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THE BRITISH COMMONWEALTH

CONTENTS

	PAGE
The Political Foundation for Disarmament	713
<i>I. The Lesson of 1914. II. After Versailles. III. The Menace of Armaments. IV. The French View of European Peace. V. The Root Problem. VI. The Ultimate Basis for Disarmament. VII. Favourable Symptoms. VIII. Other Aspects. IX. The British Position.</i>	
Shanghai	738
<i>I. China and the West. II. The Foreign Settlements at Shanghai. III. Chinese in the Settlements. IV. Security and Its Consequences. V. The Weakness of the Settlement System. VI. Genesis of the Feetham Report. VII. The Recommendations. VIII. Method of Revision. IX. British Diplomacy in the Far East. Appendix: Letter from Dr. S. K. Dutta.</i>	
The Crisis and Its Background	769
<i>I. Economic Integration since the War. II. The Collapse of Prices. III. The Effect of Trade Barriers. IV. Monetary Factors. V. The Political Problem. VI. Prospects of Recovery.</i>	
American Politics and the Hoover Plan	793
<i>I. The Hoover Plan: The First Reaction. II. Second Thoughts. III. The Presidential Election: Programmes and Personalities. IV. The Russian Bogey. V. Illusions and the Future.</i>	
<i>(Continued on next page.)</i>	

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CONTENTS (continued)

The Economist Report

- I. The International Gold Standard. II. A Managed Currency.
III. The Balance of Trade.*

Doubts and Difficulties in India 821

- I. The Second Round Table Conference. II. The Moslems and the
Princis. III. Agrarian Discontent. IV. Terrorism. V. Finance.*

Great Britain: The Narrow Way? 836

- I. The Economy Problem. II. Industrial Relations.*

Ireland: Events in the Free State 852

- I. Political. II. Economic and General.*

Canada 867

- I Parliament and the Depression. II. The West.*

Australia: Monetary Policy and Financial Recon- 888 struction

- I The Political Background. II. The Exports Committee. III.
The Question of Compulsory Conversion. IV. A Record of Achieve-
ment. V. Party Reactions.*

South Africa 907

- I. The Session. II. The Statute of Westminster and the Privy
Council. III. The Union Census.*

New Zealand 921

- I. Economic and Financial Legislation. II. The Position of Parties.
III. Unemployment. IV. Wage Reductions. V. Defence. VI. The
Tariff War with Canada.*

CONTENTS OF Nos. 82 and 83

No. 82. MARCH 1931

	PAGES
India : Constitution or Chaos	299
Russian Realities	274
The United States in the Great Depression	299
China : A Brighter Outlook	319
Church and State in France	333
The Unrest on the Indian Frontier	351
Governor-General and High Commissioner in South Africa	371
Great Britain : <i>Economy and Unemployment.—Coal and Cotton</i>	378
Ireland : Events in the Free State	397
Canada : <i>Wheat—The Balance of Trade</i>	415
Australia : <i>Australian Finance : the Narrow Way—The Imperial Conference : an Australian Governor-General</i>	432
South Africa : <i>The Union and the Imperial Conference—The Economics of the Imperial Conference</i>	453
New Zealand : <i>The Economic Position—The Close of the Session—Unemployment—Railway Policy—The Public Debt—Defence</i>	463

No. 83. JUNE 1931

Great Britain's Problem	481
France and Germany	499
Is the Five Years' Plan a Menace ?	521
Economic Safeguards in India	541
President Hoover at Mid-Term	554
China	570
India after the Conference	583
Great Britain	604
Ireland : Events in the Free State	619
Canada : <i>Aviation as an Imperial Link—Federal Politics</i>	635
Australia : <i>Men and Measures at Canberra—Politics and Finance—The Problems of the Northern Territory</i>	653
South Africa : <i>The Session—The Budget—The Japanese Agreements</i>	672
New Zealand : <i>The Outlook—The New Economic Policy of Mr. Forbes—The Emergency Session—Unemployment</i>	691

NOTE

THE ROUND TABLE is a co-operative enterprise conducted by people who dwell in all parts of the British Commonwealth, and whose aim is to publish once a quarter a comprehensive review of Imperial politics, free from the bias of local party issues. The affairs of **THE ROUND TABLE** in each portion of the Commonwealth are in the hands of local residents who are responsible for all articles on the politics of their own country. It is hoped that in this way **THE ROUND TABLE** will reflect the current opinions of all parts about Imperial problems, and at the same time present a survey of them as a whole. While no article will be published in the interest of any political party, articles may from time to time be published explaining the standpoint of particular parties or sections of opinion. In such cases, however, the character of the article will be made clear by an introductory note.

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A NEW INDEX

Hitherto an index for the year has been included in each September issue of *THE ROUND TABLE*. The index has been confined to titles and sub-titles of articles, and this has restricted its value as a ready means of tracing references in back numbers, so an experiment is to be made with a much-enlarged index in which references to all the chief topics dealt with will appear. Unfortunately, it is impracticable to include the new index in the September issue; it will be published as a loose insertion in the December number, along with a title-page for the volume.

THE POLITICAL FOUNDATION FOR DISARMAMENT

NO serious student disputes the fact that the Disarmament Conference, which is to assemble at Geneva next February under the Chairmanship of Mr. Arthur Henderson, will be the most momentous assembly which has taken place since the Paris Peace Conference. Not only will it contain representatives of all the nations of the world, including Russia and the United States. Its decisions will probably determine, not merely whether universal disarmament is practicable or not, but whether the ideals which underlie the League of Nations are to prevail, or whether Europe is going to return to the old system of an armed balance of power, which would be the certain prelude to another world war.

It is not proposed in this article to consider what may be called the technical aspects of disarmament, whether, for instance, trained reserves or stores of military material should be taken into account, or what the precise figures of men, guns, aeroplanes to be possessed by various nations should be. Armaments, in the words of the old phrase, are but the instruments of policy. All experience shows that agreements to limit or reduce armaments are conditional upon prior agreement about political policy. The Coolidge Naval Conference of 1927 was a failure because there was no prior understanding about the freedom of the seas and other fundamental political issues between the British Commonwealth, the United States and Japan. The

The Political Foundation for Disarmament

London Conference was a success, so far as these three Powers were concerned, because both Mr. Ramsay MacDonald and the Japanese Delegation had reached a preliminary political understanding with Washington. It was a failure, so far as Italy and France were concerned, precisely because there was no basis of political agreement about Mediterranean affairs.

The purpose of this article, therefore, is to consider the political issues which underlie the disarmament problem. For unless some understanding about these issues is arrived at before the Conference meets or at any rate before it adjourns, no agreement of any importance will be reached about the figures for armaments themselves. The consideration of these political issues, too, will be based on the assumption that Europe is going to remain a collection of strongly national States. The events of the last few weeks show the extent to which economic and financial forces may transform the political assumptions on which post-war Europe has rested, either by forging new international bonds or raising to power in certain European countries revolutionary elements which derive their ideals from Soviet Russia or Fascist Italy. These elements are endeavouring to establish an entirely new international system, and their influence might be rapidly, and indeed decisively, strengthened by economic distress.

No attempt will be made in the article to estimate what the progress of these movements may be during the next few years—such progress is imponderable. But the possibility that events may upset the normal development of present-day Europe, and with it the work of the Disarmament Conference itself, cannot be ignored.

The Lesson of 1914,

I. THE LESSON OF 1914

EVER since the outbreak of the world war in 1914 mankind has, in the domain of international affairs, been torn between two conflicting principles.

On the one hand there has been the old conception of a world consisting of a number of independent self-centred sovereign States, each relying upon its own armed strength to defend its security and its rights, in which war is recognised to be inevitable from time to time, while diplomacy is concerned to promote the ends of its own particular country, if possible without war. Tradition and history are quoted to support the view that, whatever men's hopes while the reaction from the world war lasts, human nature is unchanging and will sooner or later reassert itself in international rivalry and a desire for aggrandisement, which in turn will inexorably lead to the renewal of periodic wars in which, as in the past, the prize will be to the strong and the swift, and disaster to the weak and the unprepared.

On the other hand, there has come into being a more deeply thought-out and more widespread movement for the promotion of world peace than has ever been known before. Philosophers and statesmen have arisen in almost every land who realise that, if the first view were allowed to prevail, it would mean not only war and suffering for individual nations but the destruction of civilisation itself, for economically the world is becoming more and more a single unit, while the effectiveness of weapons of destruction is growing with incredible speed. They realise, too, that war is really the most unjust and the most expensive method of settling international problems, and that it invariably breeds, not peace, but a new crop of wars.

The result was the League of Nations. The basis of the League was the conviction that war was inherent in

The Political Foundation for Disarmament

the condition of international anarchy. So long as there was no semblance of political unity among men every nation inevitably looked at every international issue from a selfish point of view, fear and suspicion reigned supreme, and, as an inevitable consequence, armaments multiplied. At the same time, although we live to-day in a world in which, thanks to scientific inventions, the need for constant adjustment affecting frontiers, tariffs, migration, the rights of individuals and a host of other things, has never been more pressing, such adjustment had become almost insoluble except by war. War is chronic under such conditions, not because anybody wants war or likes war, but because it is the only method by which important political change can be effected in a world which has no political machinery of any sort for the conduct of its common affairs.

The world war of 1914, like its predecessors, was the result of just such causes as these. The political settlements of 1815 and 1870 had become out of date. On the one hand, democracy was demanding both the abolition of the great military monarchies of Germany, Austria-Hungary and Russia, and the liberation of the oppressed nationalities in Europe, Ireland and Asia. On the other, Germany was demanding a "place in the sun" in the outside world comparable with that of Britain or France or Russia and commensurate with the increase in her own power since 1870. There was no League of Nations and no method save diplomacy whereby these issues could be discussed, and that was secret. Force was the only way of dealing either with revolution in eastern Europe or with the larger political and economic issues which required adjustment. The consolidation of Europe into two great military camps, the Triple Alliance of Germany, Austria-Hungary and Italy, and the Dual Alliance of France and Russia, served to stabilise Europe for a time after 1890, because neither side dared to challenge the other. But gradually the military competition between the two increased, and

their fear and suspicion of each other grew with it. This competition was intensified by the gradual association of Great Britain with the Dual Alliance, after Germany had set out to build a fleet comparable to her own with the object of obtaining security for her rights and her destiny in the outside world. Finally, despite the efforts of pacifists of all kinds, military and naval preparations reached the point at which success or defeat in war was mainly a question of speed in mobilisation, for it became clear that the combination which got in its blow before its rival was fully mobilised would be able to win the war and dictate its own terms within a few weeks.

The assassination of the Archduke Franz Ferdinand, the heir to the Austro-Hungarian throne, drove the Hapsburg Government to send an ultimatum to Serbia, and to mobilise its army as a proof that it meant business. From the moment of Vienna's mobilisation order it was almost impossible to prevent war. The political issues at stake were swept into the background by the imperious demands of the military time-table. If Russia allowed the Austro-Hungarian army to complete its mobilisation without a counter-mobilisation, that army would be able to march to Warsaw without opposition and destroy the defensive organisation of Russia. If Germany allowed the Russian army to mobilise without a counter-mobilisation, she would be caught, as in a nutcracker, between France and Russia. All her plans for security in the event of war were based on her having time to defeat the French army before the Russian army was ready to strike, and then to move her victorious troops back from the West to the East before her frontier was breached. Hence Europe was driven by the military time-table into war, although no single government determined that the issues should be decided by war.

Students of politics and practical statesmen, who had time to think, alike realised that if the war resulted merely in the traditional peace, however wise, and if the nations

The Political Foundation for Disarmament

then reverted to their old mutual isolation, another world war would be inevitable. The underlying issues would be different, but the only way in which they could be settled would be the same—resort to war. Hence the first chapter in each of the Treaties of Peace provided for a fundamentally new method of mediating in international affairs. For the essence of the idea underlying the League of Nations is that the nations should meet regularly round a common table, that they should create and undertake to use machinery which would render possible the settlement of international disputes by conference, mediation, arbitration or judicial means in the full light of the public opinion of the world, that they should renounce the right to settle their disputes by war, and that they should bind themselves to deal collectively with any nation which resorted to war in defiance of its obligations under the Covenant.

Thanks mainly to the insistence of President Wilson, the Covenant was embodied in the Peace Treaties, and became the basis of the political structure of the post war world. Whatever may be thought of the details, there is no question that in broad outline the ideas which underlie the Covenant are the only ones which can lead the world out of the morass of recurrent war. War is endemic in an anarchic world. In the international sphere no less than in the national the only alternative to chronic war is constitutional procedure, which will enable political issues to be solved by a pacific appeal to reason and justice and will curb those who try to get their own way by force. The League is the beginning of an attempt to substitute the reign of law for the reign of force in international affairs.

After Versailles

II. AFTER VERSAILLES

ALTHOUGH the ideals of the League of Nations triumphed at Paris they did not command universal assent. The United States felt that an acceptance of the obligations of the Covenant would involve too radical a reversal of her long tradition of political detachment from the vortex of European militarism, and she rejected both the League and the Anglo-American Treaty of Guarantee, which promised assistance to France in the event of unprovoked aggression. Russia, captured by the ideals of the Communist Revolution, refused to join the League. In her eyes it represented an anti-revolutionary association of the capitalist nations, whose object was to exploit the proletariat of their own lands. Even in Europe the League had a struggle to survive. Germany was only admitted in 1926 as part of the Locarno settlement, Italy, after the Fascist march on Rome, though she remained a member of the League, swung vehemently back to militarist and nationalist ideals. France, Poland and the countries of the Little Entente combined a belief in the utility of the League ideal with a system of military alliances designed to render impossible any forcible modification of the Treaties of Versailles and Trianon. A number of other Powers, such as Spain, the Argentine Republic and China, have, for one reason or another, been lukewarm adherents of the League. Only the British Commonwealth and the smaller nations of northern Europe have consistently advocated the full ideals of 1918.

None the less, in every respect except disarmament, progress has been made in the last ten years. The United States maintains her attitude of detachment, but she has moved sensibly in the direction of co-operation. She took the initiative in promoting the Dawes and Young Plans and the Kellogg Pact for the total renunciation of war as

The Political Foundation for Disarmament

an instrument of national policy, and President Hoover's declaration that no United States Government could be indifferent to the violation of this pact was a recognition that if the day of permanent co-operation has not yet dawned, the day of old-fashioned isolation is at all events over. Germany has been relieved of many of the special disabilities imposed on her as a result of defeat, notably of the occupation of the Rhineland, which was to have continued until 1935. The League itself has become part and parcel of the political structure of Europe, if not of the world, so that it is difficult to-day to conceive of a Europe in which the Foreign Secretaries and Prime Ministers of its member States would not come into personal conference under the ægis of the League several times a year.

The League, too, has a number of valuable achievements to its credit, and they are by no means confined to non-controversial subjects such as health and financial relief. There is certainly a much better understanding between nations of one another's problems, and disputes have been peaceably settled in the Balkans, Iraq, the Aland islands and elsewhere. The number of adherents to the principle and machinery of compulsory arbitration has steadily increased.

If we look at the positive side alone there is no question that since 1918 we have moved far from the old concept of an anarchic world of sovereign States possessed of no common machinery to ensure consultation and co-operation or to prevent war, and that remarkable progress has been made towards a new international order, in which mutual understanding and the well-being of humanity as a whole can begin to counterbalance the old selfish egotism of some sixty self-regarding sovereign States. The black spot in the picture is the fact that armaments, so far from diminishing, have actually increased. The expenditure of the principal European Powers and the United States in this respect has risen by more than £150,000,000 per annum in the last six years, Great

The Menace of Armaments

Britain and Japan being the only countries whose expenditure has remained at approximately the same level. And that is a very serious matter, for armaments are the "acid test" as to whether the nations have real confidence in the new machinery for the preservation of peace and the protection of their lawful rights

III THE MENACE OF ARMAMENTS

THE Covenant of the League of Nations contains the following article* —

The members of the League recognise that the maintenance of peace requires the reduction of national armaments to the lowest point consistent with national safety and the enforcement by common action of international obligations

There is no question that a universal agreement to limit and reduce armaments is an indispensable element in a world organised for the settlement of international questions by law and justice and not by war. The essence of "peace" within the national State is that its citizens should renounce violence and be prevented from resorting to it, and that they should settle their disputes by recourse to the law courts or to Parliament. It is the same internationally. The success of the League principle depends upon the nations abandoning the right to take the law into their own hands by resort to war, and that means disarmament. Either the League system will destroy the war system or the war system will destroy the League, for in the long run they are irreconcilable.

The reason is twofold. In the first place, the existence of large armaments implies that every nation means, in the last resort, to be judge in its own cause, and that it does not trust the rest of the world either to be just or to come to its assistance if it is attacked. In the second

* Article 8

The Political Foundation for Disarmament

place, once a nation begins to rely upon its own armaments, a competition in armaments sets in which leads inevitably to an armed balance of power and war. For the only way in which one nation can obtain security as against another by means of armaments is by having superior armaments; in other words, security for one nation is only obtainable through the insecurity of its neighbours. But these neighbours will, in their turn, inevitably also want security, and they will get it, either by increasing their own armaments or by alliances, until the world becomes hag-ridden by suspicion and rivalry. The old military time-table will then reappear as in 1914, and it will only take a similar accident to plunge mankind into another world war.

The one remedy for this situation, and the only basis for a peaceful international order, as Article 8 recognises, is the reduction by all the nations of their armaments to a level at which they will no longer be a serious menace to one another, so that pacific procedure will be given a real chance and it will cease to be a formidable matter for the nations collectively to restrain an aggressor.

IV. THE FRENCH VIEW OF EUROPEAN PEACE

THE development of the League of Nations, however, represents only one aspect of the political development of Europe since the war. The second, and in many ways the central, fact has been the absolute military predominance of France and her allies—Poland and the Little Entente—over Germany and the ex-enemy Powers. How complete this predominance is may be seen from the fact that within three months of a declaration of war France and her associates could mobilise over 150 fully armed and equipped divisions as against a German force of not more than twenty divisions, that they possess highly developed air forces equipped either to fight or to bomb at a moment's notice,

The French View of European Peace

while Germany has no military aviation at all, and that they have besides great reserves in the way of heavy guns and trained conscripts, immense arsenals in full working order, while Germany has no heavy artillery, no conscripts trained since the war and no arsenals in the real sense of the word. The German Reichswehr is no doubt highly efficient and its organisation is well adapted for rapid expansion. There are probably also considerable stocks of small arms and ammunition, and Germany could certainly mobilise large numbers of men partly trained by such voluntary organisations as the Stahlhelm. No soldier, however, doubts that France and her allies could to-day overwhelm all effective military opposition in Germany without the slightest difficulty and occupy every strategic point in the country. The same is equally true of Hungary and Bulgaria.

This alliance system was built up by France as a bulwark for the Treaties of Versailles and Trianon in the early years after the war, and her case for doing so was a strong one. It was unreasonable to suppose that Germany, Hungary and Bulgaria would voluntarily acquiesce in the drastic revision of their frontiers effected by the Treaties, or pay the reparations imposed on them by the victorious allies, unless they were convinced of the necessity of doing so. The League had no force at its disposal, the United States had retired for good across the Atlantic and had rejected the Anglo-American Treaty of Guarantee, Great Britain and the Dominions, though showing a practical interest in the pacific activities of the League, were clearly themselves withdrawing, if not into complete isolation, at all events into a state of military detachment from Europe, in which they could not be relied upon to maintain the vigilant guardianship over the Peace Treaties on which their stability depended. So France, full of bitterness at being deserted by her powerful allies, took the policeman's task upon her own shoulders.

The military hegemony of France has, in fact, been the

The Political Foundation for Disarmament

basis upon which the peace of Europe has rested since 1919. In its present form it is the outcome of the events of 1923-25. France, rightly or wrongly, became more and more convinced that Germany did not really mean to fulfil the Treaties and that she intended to whittle away her obligations under them. The result was the occupation of the Ruhr. That occupation convinced Germany that, for the time being at least, she had to fulfil her obligations, and it convinced France that a policy of destroying Germany altogether, either through economic means or by the partition of her territory, would only redound to her own disadvantage. The outcome of the Ruhr occupation was the Locarno Treaties and the Dawes and Young Plans. Germany thereby voluntarily undertook to renounce Alsace-Lorraine, to make no attempt to revise her eastern frontier by force—only by pacific means—and to pay what experts regarded as practicable reparations. France on her side adopted a comparatively conciliatory policy towards Germany, which found expression not only in the Dawes and Young agreements but also in the evacuation of the Rhineland before the date fixed by the Treaty of Versailles. Great Britain became once more a military factor on the Continent of Europe by her undertaking, subject to the supervision of the League, to defend, with Italy, the integrity of the demilitarised Rhineland against both Germany and France, though she made it clear that she assumed no further responsibility for the preservation of the *status quo* in eastern Europe than was imposed upon her by the Covenant of the League.

But despite the "Locarno spirit" and the Locarno Treaties, the military predominance of France and her allies, as the guarantee both for the observance of the Treaties of Peace and for the security of France, Poland and the Little Entente, still remains intact. Just as the police and the army are the ultimate "sanction" for the rule of law and the peaceful functioning of parliamentary institutions in every democratic state, so the armies of France,

21 (The Root Problem)

Poland, Czechoslovakia, Yugoslavia and Rumania are the "sanctions" behind the public law of Europe as embodied in treaties, and behind the pacific and quasi-parliamentary proceedings of the League of Nations. France regards herself, not as the bully, but as the policeman of Europe.

V THE ROOT PROBLEM

WE can now see the root problem which underlies the disarmament question. France, as her statesmen have unceasingly declared, is primarily concerned with security, and security means not merely freedom from risk of invasion, but the stability of the settlement of 1919. France is said to be willing to consider the possibility of modifying that settlement by pacific means, by negotiation, conference or arbitration, provided that there is ample security that it cannot be altered by force, for pacific methods mean either that no alteration can be made without her consent and that of her allies, or else that there will be no fundamental change, for arbitral and judicial proceedings alike cannot do otherwise than proceed upon the basis that the treaties of 1919 represent the law. Hence her passionate attachment to the principles of the Geneva Protocol of 1924, which provided for "arbitration, security and disarmament." Europe was to disarm, but only on condition that no alterations should be made in the treaties except by agreement or arbitration, and that every signatory, including Great Britain, should pledge herself to immediate military action against any nation which resorted to war.

The core of France's policy is in fact to maintain or create a military situation in which it is impossible to alter the Peace Treaties by force, and every utterance by her political leaders and in her political press goes to prove that, while she may be willing to make minor concessions in the direction of disarmament, she intends to keep, in association with her military allies, as long as she can, that absolute military preponderance over the ex-enemy Powers which is

The Political Foundation for Disarmament

her security, not only against invasion, but against the violent alteration of the treaties. And in this attitude she is whole-heartedly backed by her allies, who support the alliances, not only for reasons of security, but because they are themselves opposed to the revision of the treaties, since any and every revision would, they know, take the direction of giving back to Germany, Hungary and Bulgaria some part of the territories that were allotted to Poland, Czechoslovakia, Yugoslavia and Rumania at the end of the war. France and her allies are still further confirmed in their resolve to maintain their absolute military preponderance just as long as they possibly can, because, in their view, the only real alternative to their own preponderance is the preponderance of Germany and her friends—a situation in which they would be faced by a demand, at the point of the bayonet, for revision far more extensive than they would ever be prepared to concede, and by their own subordination to Germany and her associates.

The standpoint of Germany and of the other European ex-enemy Powers is equally easy to understand. On the one hand they demand equality in armaments; on the other hand they demand a revision of what they regard as unjust terms of peace imposed upon them by force. They say that it is an inherent attribute of a sovereign State to be free to take what measures it thinks necessary for its own security, and that it is now quite intolerable that they should be given no security, while France clamours unceasingly for absolute security for herself. They further claim that general disarmament was promised them at Versailles and that they accepted the military terms of the Treaty of Versailles on that understanding, and that if it is not fulfilled they will be morally free from their disarmament obligations. The relevant words of Part V of the treaty read as follows :

In order to render possible the initiation of a general limitation of the armaments of all nations, Germany undertakes strictly to observe the military, naval and air clauses which follow.

The Root Problem
The official reply of the Allied and Associated Powers to the observations of the German delegation on June 16, 1919, moreover, states that

The Allied and Associated Powers wish to make it clear that their requirements in regard to German armaments were not made solely with the object of rendering it impossible for Germany to resume her policy of military aggression. They are also the first steps towards that general reduction and limitation of armaments which they seek to bring about as one of the most fruitful preventives of war, and which it will be one of the first duties of the League of Nations to promote.

These pledges, they contend, imply not only all-round disarmament, but equality in armaments as between States of the same international standing and size.

Finally, Germany and her associates have never ceased to protest against what they call the "war-guilt lie," that is, the statement in the Treaty that Germany was solely responsible for starting the war; against the Polish Corridor, the Upper Silesian boundary, and the transfer of territory containing Magyar and Bulgar majorities to form part of the States of the Little Entente; and against excessive reparations. They claim that a revision of the treaties is essential, alike in the interest of justice and of lasting peace, and their more extreme spokesmen declare that, unless revision is effected within a reasonable time by pacific means, they will leave the League of Nations as a dishonest sham, and set to work to secure equality and revision by the only means left open to them—force.

This then is the core of the political problem which underlies the disarmament question. There are other difficulties, the attitude, for instance, of Russia, Italy and the United States, to which a brief reference will be made later on. But the immediate and most serious problem is to find a solution for the fundamental differences that divide France and Germany and their respective friends. These differences have not been lessened during the last few weeks. For the attitude of France to the Hoover

The Political Foundation for Disarmament
proposal has been taken in Germany as an attempt to take advantage of her financial difficulties to rivet her once more in a position of subordination, while the pleas of Germany have been taken in France as a dexterous attempt to use these same difficulties as a means of escaping from the financial obligations of the Treaty of Versailles.

VI. THE ULTIMATE BASIS FOR DISARMAMENT

IF we consider the problem from a dispassionate and neutral standpoint, the only real and final solution is that the defects of the treaty settlement of 1919 should be considered in the pacific manner prescribed by the Covenant, and that a voluntary agreement about revision and a general reduction of armaments to a police level should proceed *pari passu*. If only the settlement of eastern Europe could be submitted to some form of impartial arbitration and revised by consent, the mainspring of armaments would disappear. France and her allies cling to their military supremacy because they are afraid that, if that supremacy were to disappear, the map of Europe would be torn up by force and their countries invaded. Germany and the ex-enemy States demand equality and freedom, partly for reasons of national self-respect, and partly as a preliminary to treaty revision, either by agreement or, failing agreement, by force. It is perfectly clear that the nations of Europe will never cease to look with fear and suspicion on their neighbours and to make difficulties about minorities, and will never reach lasting tranquillity and disarmament, until the eastern frontiers are accepted as final, just as the western and Scandinavian frontiers are to-day accepted as final. In so far, then, as Europe is concerned, the fundamental political condition upon which the success of the Disarmament Conference depends is a general agreement which will permit of the frontier problems and one or two other

Favourable Symptoms

matters being settled so wisely and with such a measure of consent that no nation will any longer harbour the design of upsetting them by force or have reason to suspect its neighbours of wanting to do so. Then the main motive for large armaments will have disappeared. This issue may not emerge at the opening session. There are many who believe that to raise it too soon would be to break up the Conference itself. It may, then, be better to wait for it to be forced to the surface by events, as a result of deadlock on the technical matters. But it is certain that the issue will arise and will have to be dealt with, if the Conference itself is to succeed in bringing appeasement and disarmament to Europe.

VII. FAVOURABLE SYMPTOMS

IT has been held in some quarters that the summoning of the Disarmament Conference for next February was a mistake, and that the time is not ripe for an attempt to induce France and her allies to abandon the system on which they have relied for their security since 1919. On the other hand, people who are in close touch with central Europe usually agree that, unless there is a definite move in the direction of disarmament next year, Germany will make up her mind that the allies do not mean to fulfil their pledges or to act up to the principles of the Covenant, especially Articles 8 and 19, and that she will turn her back once for all upon the League of Nations and pacific methods, and prepare for an attempt to recover her freedom and her place in the sun both in Europe and elsewhere by any means in her power. We take the second view. To attempt to keep Germany in the strait-waistcoat, political, economic and military, in which she has been confined since 1918, is to lay the foundations for another world war. The only course is that Germany and the ex-enemy Powers should be enabled to recover that permanent place in Europe to

The Political Foundation for Disarmament
which they are inherently entitled, and to reconsider, in the full light of world publicity, the inequalities and grievances which they believe they suffer under the Treaties of Peace.

Indeed, it may well be that, now that the Disarmament Conference is to take place, France and her associates will be forced to reconsider the system upon which their security is based far more profoundly than they have yet been willing to do. For it is obvious that their present system cannot last indefinitely—it is in truth already beginning to break down. Nobody believes, even among chauvinist circles in France, that it will be possible to keep a great nation like Germany in permanent subjection. Italy, moreover, has ostentatiously detached herself from the French system—she is already in active opposition to it. Finally, Russia is rapidly recovering her military power. In the last four years her expenditure on armaments has risen from 698 million roubles to 1,125 million roubles per annum, and the Five Years Plan has, to a large extent, clearly been designed from a military standpoint. Hungary, and to a less extent Bulgaria, also nurse the hope of revenge.

If this process continues, it is only a question of time until the effectiveness of the French alliance system is neutralised and even out-matched. As Russia recovers her strength, it will become more and more impossible for Poland and Rumania to act against Germany or the other ex-enemy Powers. Neither of them could face war on two such fronts at the same time. They are bound to become increasingly immobilised as military factors in the European situation. Yugoslavia, too, is checkmated by Italy. As this situation develops, and the prospect of an immediate victory, in the event of hostilities, recedes, the readiness of France and her allies to plunge into war for the sake of one another, and therefore the value of the alliance system as a guarantee of security, will inexorably grow less. Indeed, there are many who believe that marching orders would meet with a very lukewarm response to-day.

The present policy of France, therefore, successful as she can claim it to have been in preventing war in post-war Europe, and in giving herself and her associates military security, though at an immense price in the hatred and resentment to which it has given rise, is beginning to break down. Every day it is adding to that volume of hatred and resentment which may some day cause a war crisis—a contingency which neither France nor her allies in the least desire. And even assuming that explosions can be prevented, if the French hegemony is continued too long it will certainly bring into being a rival military combination. Suppose, for instance, that Germany, Russia, and Italy should join forces, not for love, but in order to destroy the French hegemony, the French would be the weaker military combination of the two, and Germany would then dispute with Russia the military control of eastern Europe. There are already many people in France who believe that, even from the narrow standpoint of the security of France, Poland, and the Little Entente, no less than from the wider standpoint of the League of Nations, the right policy is to aim at some moderate scheme of revision in so far as the Peace Treaties are concerned, and at the same time to carry all-round disarmament sufficiently far to render it impossible for any nation to invade its neighbours of comparable size with any hope of success, and to make the co-operative machinery of the League of Nations for the settlement of disputes and the prevention of war really effective. This clearly cannot be done so long as Europe is armed to the teeth, for so long as her nations are heavily armed co-operative action against an aggressor, which France has hitherto regarded as the necessary basis for any alternative to her present system, means taking part in a first-class war.

There is therefore more hope of success at the Disarmament Conference than a superficial analysis of present-day facts might suggest. The events of the past few weeks show that Europe is approaching a crisis. France may endeavour to take advantage of the economic situation to

The Political Foundation for Disarmament
try to prolong the subordination of Germany. In our judgment, such a policy, even though some advantages could be claimed for it in the past, must lead to war and revolution. On the other hand, France may make up her mind that the time has arrived to find a new basis for security and stability in Europe. She may conclude that the Disarmament Conference affords an opportunity, which may not come again, of coming to terms voluntarily with Germany, Hungary and Bulgaria, and of trying to create that permanently pacified and disarmed Europe which it is the main purpose of the League to bring into being. A change of this kind cannot be expected to spring ready made out of the first meeting, but, if the Conference is wisely handled, it may well come to the fore before its close. It should be the primary object of British policy to bring Paris, Berlin and Warsaw to an agreement about the frontiers of eastern Europe.

VIII. OTHER ASPECTS

THIS article has so far been entirely directed to the European, indeed to the Franco-German problem, for that problem constitutes the core of the disarmament question at the present time. If it can be solved, Europe will move forward to unity and peace under the League. If the Conference fails to solve it, Europe will inevitably slip back into the old system of the balance of power, which means war, and a greatly weakened League. But there are other aspects which will certainly have to be taken into account.

First of all, there is the United States. The United States is as determined as ever to remain outside European politics, and therefore outside the League, which she regards as a predominantly European concern. Yet with every year that passes she recognises more clearly that her interests are bound up with the preservation of world peace.

She has shown it in the Kellogg Pact, though she has proposed no way of making that pact effective if the moral sanction should fail. She has shown it by her insistence upon naval "parity" with Great Britain, and superiority as regards Japan, which means that, whether she wishes it or not, if ever it should fall to the British Navy to enforce Article 16 of the Covenant, she will have to decide whether she will acquiesce in that navy's preventing American goods from reaching an "outlaw" State, or whether she will threaten war—or even go to war—to compel the League to permit American goods to reach such a State. She has shown it more recently in her support of the "Hoover" plan, which has brought into effect a debt moratorium for a year. She is also a member of the Disarmament Conference, and President Hoover has repeatedly shown his active interest in its success.

The United States will certainly press for the limitation and reduction of armaments, and she will endeavour to use her control of war debts as a lever to bring it about. But when France and Europe ask her, as they will, "What action will you take against a violator of the Kellogg Pact, for we cannot abandon our present security unless some international substitute is put in its place," no one knows what her reply will be. There certainly seems to be no movement in American public opinion in the direction of any form of international guarantee at present, although there are a large number of people in the United States who consider that she should at least agree to confer with her co-signatories if any infraction of the Pact occurs or seems likely to occur.

The Italian attitude is complicated by the naval issue in the Mediterranean. Italy is militaristic in sentiment, but she is also economically and financially weak. The failure of the Franco-Italian naval negotiations is in part explained by the desire of France to enter the Disarmament Conference in as strong a position as possible for the purpose of a bargain. Italy is not likely to block any general

The Political Foundation for Disarmament
settlement in Europe, for, if Europe could be pacified, her fundamental interests would lie outside it.

Finally, there is Russia. The recovery of Russia in a military sense is causing anxiety in eastern Europe, and, as already explained, is beginning to neutralise the French alliance system. Russia, too, expects war, for she fears attack by the capitalist Powers. But hitherto at any rate she has shown more interest in the development of her own internal communist society than in nationalist aggrandisement, and she was the only Power to propose real disarmament to the Preparatory Commission at Geneva. Whether that proposal was genuine, or, as her neighbours allege, put forward because she believes that world revolution would be easier to bring about in a disarmed world, it is impossible at this stage to decide.

The position of Russia, however, has for the purposes of disarmament a special significance, for she is not only an external, but an internal menace to other nations. Unless the capitalist world can set its own house in order and get rid of unemployment and excessive war debts and reparations, communism may well spread over a considerable part of central Europe, and completely transform the disarmament problem. Of the prospects of such a development no one can speak with any certainty.

IX. THE BRITISH POSITION

IT is obvious that Great Britain and the British Commonwealth will be confronted with decisions of the most vital importance at the Disarmament Conference. For the whole basis of British policy is at stake. Great Britain's traditional policy has always been to keep outside the internal politics of Europe, and, except when there was a threat to her own existence through the emergence of a European Power strong enough to aim, with good prospects of success, at the military hegemony of Europe, to concern

herself primarily with the outside world. That policy, for the first time in her history, she deliberately abandoned in 1919. She abandoned it because she had become convinced that the only alternative to war, of an increasingly devastating character and recurring at more and more frequent intervals, was the successful realisation of the ideals of the League of Nations. Since 1920 she has stood whole-heartedly behind the League.

Her primary object will clearly be to do everything possible to bring about such a measure of disarmament as will give reasonable security to every Power alike—to Germany no less than to France—through the limitation and reduction of those weapons of war which are primarily offensive in their character. If every nation felt that successful invasion in the first weeks of a war was out of the question because its neighbours did not possess the means to overthrow its defences by a sudden blow, the tension in Europe would be immeasurably lessened, and the discussions at Geneva of what revisions must be made in the Peace Treaties in order to secure lasting peace would be immensely easier. Great Britain's main object must clearly be to bring about such a measure of all-round disarmament as will give the League ideal a chance of strengthening its hold upon Europe. In doing this she will at least have a strong moral position. As the Prime Minister pointed out on June 29, she has set the example and already reduced her own armaments to a dangerously low level compared with those of other Powers. Between 1914 and 1931 the personnel of the Navy has been reduced by 38 per cent., and the annual expenditure on it, in terms of constant purchasing power, by 31 per cent., compared with an increase in net expenditure of over 80 per cent. in the United States, of over 70 per cent. in Japan, and decreases of 8 per cent. in Italy and 17 per cent. in France. The British Commonwealth has now 74 fewer capital ships than at the outbreak of war, 72 fewer cruisers, about 250 fewer destroyers and torpedo-boats, and 40 fewer

The Political Foundation for Disarmament
submarines. The expenditure on the Army has remained approximately the same, in terms of fixed purchasing power, but the man-strength has been reduced by 37,600 to 148,800.

But whatever the outcome of such an initiative may be Great Britain and the British Commonwealth as a whole are likely to be confronted by alternative proposals, the answer to which may require a good deal of thought. If, for instance, France makes up her mind that the time has come to find a new foundation for her own and for European security, the basis of that alternative is likely to be the Geneva Protocol of 1924—arbitration, disarmament, and security—which means a British guarantee to co-operate militarily against any Power which attempts to alter the treaty settlement by other than peaceful methods. What is to be Great Britain's answer? Hitherto she has refused to associate herself with the French system of hegemony, and she has limited her European commitments to those created by the Locarno treaties and Article 16 of the Covenant. These have not, however, satisfied France. Are we prepared to go further? Our answer in the past has been that we would refuse any further commitment, and it is obvious that we will continue to do so as long as France claims military preponderance, or Europe is armed as she is to-day. Great Britain clearly will not undertake the rôle of policeman in an armed world. Even if she tried to do so she could not keep the peace. She would only be dragged into a war whenever any European Power liked to start one—a war in which she would run the risk of conflict with the United States as well. If Great Britain is to undertake to deal vigorously with an aggressor, the necessary conditions must be that European, including French, armaments are reduced to the police level all round, that the United States will at least acquiesce in action taken under Articles 10 and 16 of the Covenant and the Locarno Treaties, and that the Peace Treaties have been revised by general consent and so form a stable base for European peace.

The British Position

The other fundamental decision she may be called upon to make if the Conference fails and Europe definitely heads towards a new balance of military power and another war. In that event, unless all history is to be belied, Great Britain will and should divest herself of every kind of military commitment in Europe, though she would continue to co-operate in all the pacific activities of the League of Nations. Europe has to choose between two alternatives. Either she will become a community of disarmed States using the League system as the means of dealing with international problems from the standpoint of reason and justice, or she will split into two great armed combinations, which may use the League as a useful piece of diplomatic machinery, but which will really rely upon their own military strength—*Machtpolitik*—to give them security, and to impose their own solutions of international disputes upon the world, or to prevent the adoption of solutions which do not suit themselves. Of the first system Great Britain, with the Commonwealth, can be an ardent and convinced supporter. Of the second she cannot. If it is adopted she will doubtless continue to do her best to settle disputes peacefully, but she will resume—and she ought to resume—complete freedom to decide whether she will intervene or not in the event of a European war. If the true League system fails, and that is what is really at stake in the Disarmament Conference, the British Commonwealth will do more for its own security and for world peace by standing outside all military commitments in Europe—including those imposed at Locarno—and by acting in unison with the United States as an independent Power, doing its utmost to bring any war to an end on reasonable terms by whatever methods may seem best at the time, than by entering into obligations which will force it to participate in every war, however it arises and whatever its purpose.

SHANGHAI

ON November 29, 1929, General Hertzog was invited by the Municipal Council of Shanghai to lend them the services of Mr. Justice Feetham, of the South African Bench. "Faced by the acute problem of reform in the Settlement," the Municipal Council "urgently needed the immediate aid of an adviser free from previous commitments or bias, who combined judicial with municipal and political experience. . . Your Government," so the cable proceeded, "as the most detached from Far Eastern controversies, is exceptionally situated to render this aid in unravelling the knot at the centre of China's tangled relations with foreign Powers. The Council by unanimous vote, including American, British, Chinese and Japanese members, respectfully invites your immediate aid."* The italics are ours. With the Judge's report before us we can now see what the Council meant by the words we have thus emphasised.

I. CHINA AND THE WEST

CHINA is a region segregated from the rest of the Eurasian continent by forests, mountains, deserts and ice, but so fertile and well watered that it is able to support nearly a quarter of the world's population. This quarter is a distinct racial group, with brains of the first order, highly industrious, and excelling in crafts, in literature, and in the arts. Before Europe emerged from barbarism,

* Vol. I, p. 2, of the Feetham report. Throughout this article references to the report will be given in footnotes, indicating the volume and page.

China and the West

the Chinese were a civilised people with a social structure based on the family system and conducted in accordance with a recognised code of good manners. When Rome was a republic they were organised as an empire governed by an autocrat through a hierarchy of scholars, a system calculated to perpetuate rather than to advance the level of culture already attained. So vast was this cultured and organised unit that China looked on herself as the civilised world. The strange and remote peoples beyond her limits were thought of as barbarians, who should recognise the Emperor of China as lord of the universe.

On the opposite side of the planet there had developed a civilisation instinct with an idea, first conceived and applied in Greece—the most dynamic idea that has ever dawned on human minds. There, men were conceived as subject, not to some ruler divinely appointed, but only to the collective authority of the local community of which they were members, expressed in the form of ascertainable laws derived from the reasoned experience of the people themselves. For more than two thousand years western civilisation has been slowly translating this basic idea into institutions. Ways have been found of moulding the law in accordance with general experience, of controlling the public purse and of making rulers accountable for their acts and obedient to law. That freedom of public discussion in which alone the rule of law can survive has been firmly established. The principal means to those ends were elected assemblies and also courts in which laws, not executive orders, were supreme.

The rule of law, by reducing the element of uncertainty in human affairs, promotes enterprise. It was no coincidence that the Anglo-Saxon people, who had carried the principle farthest, excelled in commerce. China was brought into touch with a civilisation, the essence of which was strange to her people, largely by British and American traders. The result can be seen in the present tangle of China's relations with the rest of the world.

II. THE FOREIGN SETTLEMENTS AT SHANGHAI

LET us now see how Shanghai came to be the knot at the centre of this tangle.

The Court at Peking wanted no commerce with Europe ; but European merchants were suffered to trade at Canton under close restraint upon their personal liberty, on the theory that the duties they paid were tribute rendered by subject races to the lord of the world. In 1839, the breakdown of this arrangement led to war between England and China, which was ended on August 29, 1842, by the Treaty of Nanking, a peace dictated on the deck of a battleship lying off that city in the Yangtze river. Under its terms British subjects in China acquired the right to live and trade at five ports, including Canton. They were not to be subject to Chinese law, but only to their own as administered by their consuls. They thus acquired extra-territorial rights, often described as "extrality."

The French and American Governments, and later a number of other Powers, hastened to make treaties with China under which they acquired all rights granted by treaty to "the most favoured nation."

Consuls were appointed to the five treaty ports, the number of which was afterwards increased. In most of these ports the consuls obtained from the Chinese Government areas, known as "concessions", as homes for their nationals and sites for their go-downs. These concessions were leased to the foreign Power, whose local consul then issued titles to his own nationals, established a court to administer their law, and made provision for municipal government. At Canton a French concession as well as an English concession was established. At Hankow five, and at Tientsin eight foreign concessions have existed side by side.*

* Vol. I, p. 27.

The Foreign Settlements at Shanghai

Shanghai was the sole exception, a port at the mouth of the Yangtze which was destined to prove more important than all the others. For the Yangtze drains 750,000 square miles, one half of China proper. More than one-tenth of humanity—some 180,000,000 industrious folk—convey their produce down this artery.* A thousand miles from its mouth, steamships collect the merchandise brought to its waters in junks and barges down tributaries, creeks and canals. If the Mississippi and St. Lawrence met to discharge their waters through the estuary of the Hudson river, the position of New York would, in point of natural advantages, be comparable with that of Shanghai, which may yet become the greatest city that the world has seen.

The old Chinese city of Shanghai stands on the left bank of the Whangpoo, which flows for sixteen miles through mud flats to the estuary of the Yangtze, and is tidal for a long distance above Shanghai. A channel deep enough for any ships which existed in 1842 is swept by the constant rush of the tide. It is now deepened by dredging, so that vessels of any tonnage can lie in the stream, which at Shanghai is 500 feet wider than the Thames opposite London.†

Captain Balfour, the first British consul at Shanghai, failed to persuade the Taotai, the Chinese official in charge, to grant a concession. As a compromise, 138 acres (marked A on the plan attached to this article) were reserved on the left bank of the river below the Chinese city, where British subjects might purchase land from the peasants, which was not thereafter to be sold or let to Chinese.‡ Titles subject to a quit rent were issued by the Taotai, through the consul, and were registered at the consulate.§

In 1845, Land Regulations were jointly enacted by the consul and the Taotai. "Three upright merchants"

* Vol I, pp. 254-5.

† Vol I, p. 31.

‡ Vol I, p. 24

§ Vol I, p. 27

were appointed by the British consul to administer the municipal affairs of the Settlement.* Later, an American purchased some land in this area. His consul insisted on registering the title, and the British consul accepted the position. Other consuls followed the American example. The area reserved for the British was thus transformed into a settlement in which all nations with extra-territorial rights stood, in law, on a footing of equality.† A separate area (1 on the plan) between the Chinese city and the International Settlement was reserved for the French.‡

III. CHINESE IN THE SETTLEMENTS

TWO centuries before this time the Manchus had conquered and extinguished the native dynasty of the Mings. When in 1842 the Manchu dynasty accepted defeat at the hands of barbarians its prestige in China was profoundly shaken. One result was the Taiping rebellion, which broke out in 1851 and presently submerged the country south of the Yangtze. For ten years Nanking was the seat of the rebel government; but it never acquired a leader with any political sense, and its troops degenerated into bandits. The Settlements were held inviolate, against rebel and imperial forces alike, by the foreign residents in arms, supported by parties landed from warships which lay in the port.§ In these sanctuaries, protected by foreign arms, some 500,000 Chinese were allowed by the foreigners to take refuge from the general carnage.|| Henceforward the provisions of the Land Regulations which forbid the leasing of land to Chinese were ignored. The revolt was finally quelled by Gordon under the able direction of Li Hung Chang. When peace was restored in 1864, about 90,000 Chinese preferred to remain in the Settlements reserved for foreign residents

* Vol. I, p. 36.

† Vol. I, p. 33

‡ Vol. I, pp. 27-8.

§ Vol. I, p. 31 and p. 34.

¶ Vol. I, p. 28.

Chinese in the Settlements

under the treaties.* These Settlements then came to include an overwhelming number of Chinese residents for whose government, in Chinese territory, a handful of foreign merchants became responsible. The International Settlement now contains 971,397 Chinese and 26,965 foreigners, and the French Settlement 421,885 Chinese and 12,335 foreigners.†

This explains why the areas of both Settlements have been greatly extended by four successive additions. The International Settlement now includes 8·6 square miles and the French Settlement 3·94 square miles. But even so they cannot contain half the people attracted to the neighbourhood of the port by its growing prosperity. 1,689,100 Chinese are housed in suburbs surrounding the Settlements. For the government of these suburbs, including the old city, "the Chinese Municipality of Greater Shanghai" was created in July, 1927.‡ It covers 320 square miles surrounding the port, an area much larger than that shown on the plan attached to this article. This vast municipal area is ruled by a mayor appointed by the Government at Nanking. The entire community surrounding the port is thus upwards of 3,000,000 people, who are parcelled out between three authorities, two European and one Chinese.

So great was the pressure on space in the Settlements that a number of Europeans have taken to living beyond their limits under rather peculiar conditions. In the Taiping rebellion Gordon had projected military roads from the Settlements, which after the war the Municipal Council took over. In later years the Council began to build roads from the Settlement into the country beyond by purchasing ground for the road-beds and also for parks. The landowners were always glad to sell because the new roads and parks enhanced the value of their unsold property. These roads are shown on the plan to the west

* Vol. I, p. 34.

† Vol. I, p. 17.

‡ Vol. I, p. 49.

Shanghai

and north of the Settlements. The number of foreigners living along them is 9,506. The Municipal Council of the International Settlement owns and administers 48 miles of road and several parks, which lie outside its own jurisdiction and in that of the mayor of Greater Shanghai.* The conflicting claims of the foreign council and the Chinese mayor to police these roads is fraught with danger, and a standing cause of friction.

The flight of Chinese from the rebels into the International Settlement created a problem which could scarcely be handled by "three upright merchants" appointed by the British consul. In allowing the consuls of other nations to exercise in the Settlement a jurisdiction equal to his own, the British consul had lost the right to arrange for its government with the Taotai in a conference of two. So in 1854 a meeting of the land-renters, summoned to meet the British, American and French consuls, framed regulations under which the land-renters were to elect representatives who should organise a police force, provide municipal services and impose the necessary taxation.†

The validity of these regulations was open to question by nationals other than British, American and French.‡ Many other defects were revealed by experience, and in 1866 a revised constitution (in the shape of new Land Regulations) was produced in Shanghai. In this draft the English and French areas were included as one municipal whole.§ A proposal that delegates should be elected by native guilds, for consultation on matters affecting Chinese residents, was discussed, but was dropped for reasons which cannot now be explained. The draft regulations were forwarded by the consuls to the foreign Ministers in Peking, but years were to pass before they all agreed. When in 1869 the Land Regulations had been finally approved by the Ministers, the provisions for Chinese representation had disappeared|| and the French had

* Vol. III, pp. 1 to 33.

† Vol. I, p. 36.

‡ Vol. I, p. 54.

§ Vol. I, p. 57.

|| Vol. I, p. 115.

Chinese in the Settlements*

decided to keep their Settlement apart in the hands of their own consul.

Under these Regulations, foreign residents owning or renting property of a certain value within the Settlement were entitled to elect a municipal council of nine. This council was entrusted with the task of administering the affairs of the Settlement. Its accounts and its budget had to be submitted for approval to a meeting of the foreign electors. This meeting of electors had exclusive power to impose certain specified taxes, and also to approve bye-laws for the better enforcement of the Land Regulations. But bye-laws passed by the meeting of electors, to become valid, must be sanctioned by the Ministers of Powers in treaty with China.*

Any constitution is bound to reveal defects when put into actual working, especially when the community for which it is framed is rapidly growing and changing. The council of nine, with a heavy and continuous burden resting upon them, developed a higher sense of responsibility than the voters in their annual meeting. The council could realise the importance of giving the Chinese majority some voice in public affairs, and also a proportionate share of the benefits to the cost of which they had to contribute. But the council's proposals for reform were too often negatived by the public meeting, or frustrated by the absence of a quorum. When reforms had received the approval of the public meeting they had then to run the gauntlet of the Ministers at Peking.† The result has been that, apart from a few amendments approved in 1899, the municipal constitution remained rigid and unaltered, as it was drafted in 1866,‡ till changes were forced by the cataclysm of 1925.

From the outbreak of the Taiping rebellion till 1928 the task of maintaining order in the greatest of Chinese cities lay with a handful of foreign merchants. In the area reserved for the British in 1843, the British Government

* Vol. I, p. 84.

† Vol. I, p. 123.

‡ Vol. I, p. 62.

stood on exactly the same footing, in international law, as Sweden, Brazil or any other of the Treaty Powers. But in actual fact control for the most part lay with the British, who owned most of the property. From 1890 to 1914 the Council normally consisted of seven British members, one American and one German, who after 1914 was replaced by a Russian. A Japanese member was first elected in 1916. From 1927 to 1930 there were five British, two American and two Japanese members.* Thus, before Chinese members were included in 1928, the British always had a majority. Through the consuls, the British Minister at Peking had direct control of the British concessions in other Treaty Ports. In the International Settlement at Shanghai he lacked such control. There was no guarantee that measures taken by the British majority and their officers to govern a large and turbulent Chinese community there would harmonise with the aims of policy as seen from the wider standpoint of Peking. Yet Shanghai, not Peking, was the real focus of China's relations with the rest of the world. In the distant legations the problems that confronted the Municipal Council were imperfectly grasped.

Apart from the yield of their normal trade, wealth from all over China seeks the relative security of the Settlements; and where riches collect, criminals gather as wasps to honey. Shanghai is also the principal centre of illicit traffic in opium, which breeds criminal organisations as ruthless and rich as those which exist to frustrate prohibition in America. In no city are the police faced by more baffling problems.

In the minds of the foreign residents, and especially in British and American minds, the authority behind the Municipal Council was law, enforceable through courts. A foreigner was entitled to be sued or tried in his own consular court. In the International Settlement there were 14 such courts. The Municipal Council itself could

* Vol. II, p. 166.

Chinese in the Settlements

...is a color consisting of the contrasting together. But what was to happen when the bulk of the population in the International Settlement was Chinese? In 1863 Sir Frederick Bruce, the British Minister in Peking, contended that the authority of the Municipal Council in Shanghai should "not extend beyond simple municipal matters, roads, police and taxes for municipal objects." He added "that the Chinese not actually in foreign employ shall be wholly under control of Chinese officers as much as in the Chinese city."^{*} But, as Morse, the American historian, wrote :—

The merchants resident in Shanghai were more clearly conscious than the envoy, on his pinnacle in Peking, of the practical difficulties attendant on a strict interpretation of the letter of the treaties, and the admission of dual and rival jurisdictions, on a footing of independence, within the same area †

The remarks of Mr. Justice Feetham on this controversy are worth quoting as a permanent contribution to the science of practical politics :—

The contrast between the authority of the Council of the Settlement and Chinese official authority, as represented by its local officer, the Taotai, was the contrast between an authority exercising limited powers in accordance with a defined constitution, and subject to the control of independent courts of law, and an authority exercising powers of an arbitrary character, not subject to any defined legal limit, which controlled its own courts and was not controlled by them.

It is impossible for arbitrary and unlimited powers and legal and limited powers to exist side by side, and to be exercised simultaneously by two independent authorities in the same area and in respect to the same persons. The first will inevitably swallow up or destroy the second. The Council of the Settlement, if they were to exercise any effective control over the Chinese residents, and to collect revenue from them, were compelled to insist on restricting the power of the Chinese authorities in respect of the Settlement portion of the Chinese population, and they seem to have recognised at a very early date that this was a question of life or death—that not only the welfare of Chinese residents, and therefore, also, to a

^{*} Vol. I, p. 95.

† Vol. I, p. 95.

PLAN SHOWING HISTORICAL DEVELOPMENT OF



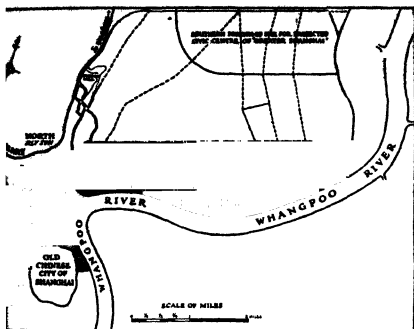
FOREIGN SETTLEMENT.

	Acres.
A First delimitation of boundaries. Agreement dated 20.9.1846.	
Approx	138
B Foreign Settlement. Agreement dated 27.11.1848	332
C Area roughly defined as included in the "American Settlement" by agreement between the American Consul-General and the Intendant of Circuit, dated 25th June, 1863, incorporated with the Foreign Settlement by agreement of 21st September, 1863, and formally delimited May, 1893	1,309
D Settlement Extension, delimited 1899	1,896
D1 Settlement Extension, delimited 1899	1,908
Total Area Foreign Settlement	<u>5,583</u>

The site of the "projected Civic Centre," marked on the plan, is the site select

———— Lines of projected roads leading

IGN SETTLEMENT AND FRENCH CONCESSION



FRENCH CONCESSION.

	Acres.
1. Original Concession as delimited by Agreement between the French Consul and Taotai Lin, on 6th April, 1849	164
2. Extension. Proclamation dated 29th October, 1861	23
3. Extension. Proclamation dated 27th January, 1900	152
4. Controlled by French prior to 1849, but officially added together with "3," and noted in proclamation dated 27th January, 1900	19
5. Extension. Proclamation dated 20th July, 1914	2,167
Total Area French Concession	<u>2,525</u>

purpose by the Municipal Government of the Chinese Municipal Area
proposed Civic Centre to the Settlement

Shanghai

large extent the prosperity of the Settlement, were involved, but that the very existence of their whole system of government was at stake.*

The result of this controversy was a compromise in favour of the Municipal Council. Chinese courts were established in the Settlement to try civil and criminal cases in which Chinese were defendants. On various occasions these courts have appeared to give decisions, not on the merits of the case, or in accordance with law, but in deference to political or administrative pressure from outside. But despite these difficulties, which have still to be faced, the rule of law in the Settlement was established in principle.

Such a situation could never have lasted as it has for some eighty years, were it not for a certain good humour and tolerance in the Chinese nature, and the high standard of honesty maintained by the foreign oligarchy in the International Settlement. Shanghai has been happy in the personal integrity of its councillors and is justly proud of their record in the matter.† It is now on the whole the most promising instance of international co-operation which the world has yet produced.

IV. SECURITY AND ITS CONSEQUENCES

THE enforcement of law in the Settlements depends in the first instance on the municipal police. The majority of constables are stalwart Chinese brought from Shantung, with a certain number of Sikhs imported from India, and some Japanese. The senior officers are mainly British, but there are also a few Chinese and Japanese.‡ Besides the police organised to keep order within the Settlement, the Council maintains a citizen army in which foreigners of military age are expected to serve. This force, which includes companies of Russians and also

* Vol. I, pp. 98-9.

† Vol. II, p. 73.

‡ Vol. I, p. 157.

Security and its Consequences

China, is commanded by a regular officer from the British army. It is thoroughly equipped with modern artillery, machine guns and armoured cars.* A student of ancient city republics might learn a great deal by leaving his Grote and Sismondi to spend a few weeks in the International Settlement. As in ancient Athens, Venice or Genoa he would find a city and its civic authorities always alert to the sense of danger.

The analogy cannot be pressed too far, for the foreigners in Shanghai are not wholly dependent on their own resources. Warships of foreign nations lie moored in the river opposite the principal banks, which store in their vaults the greatest accumulation of treasure in China. Whenever serious danger has threatened, Great Britain has sent forces strong enough to protect the Settlement, and others have followed her example. The Treaty Powers have thus shown their readiness to prevent the Settlements from becoming the battleground of forces contending for mastery in China.

The Government at Nanking keeps its balances in the International Settlement of Shanghai. The largest mint in the world has been built just beyond its boundary. But the only entrance to the mint is by a bridge over the Soochow Creek from the International Settlement, and this bridge is guarded by the Settlement police. The Settlements in fact are the only financial anchorage for a Chinese Government which is trying to establish itself on a permanent and constitutional footing. In times of commotion a Tuchun who seized the treasure in the Settlements would dominate China so long as the plunder lasted, and would also ruin her foreign trade.

Within these few square miles on the banks of the Whangpoo society is genuinely based on the rule of law.† Neither land nor goods are liable to confiscation, as elsewhere in China. Taxes are collected according to law to

* Vol. I, p. 155.

† Vol. II, p. 71.

Shanghai

meet the requirements of a published budget. Expenditure is subject to a regular audit. There are freedom from arbitrary arrest, proper sanitation and efficient police. The press is not liable to censorship or suppression. Public affairs can be and are publicly discussed—the only condition upon which the supremacy of law can ever be maintained. Shanghai and its diplomatic counterpart, the Legation quarter at Peking, are almost the only apertures through which uncensored news about China can be published to the world.

The fact that Shanghai is the economic centre of China is due to something besides its place on the map. The physical conditions required for a port near the mouth of the Yangtze artery could be found at a number of places, notably at Nanking and Pukow.* Appended to the Feetham report are several memoranda from Chambers of Commerce and Bankers Associations,† which clearly show that the special prosperity of Shanghai is due to the rule of law established in the Settlements. These Settlements are the banking centre of China.‡ Within their limits are 20 branches of foreign banks, 39 Chinese banks of the modern type and 70 "native" banks. In Greater Shanghai there are only 7, and all of them "native" banks. Stored in the Settlements' banks are silver reserves to the value of £16,000,000 upon which all the foreign and much of the international trade of China depend. An issue of notes to the value of £50,000,000, based on this silver secured in Shanghai, circulates widely throughout China.§ The banks are prepared to lend at far lower rates on the security of goods, building and lands within the Settlements than on similar securities beyond their limits. The value of property outside the Settlements is at least 20 per cent. lower than the value of adjacent property inside them. One curious result may be seen in the fact that in periods of widespread disturbance, while property values sink all

* Vol. I, p. 268.

† Vol. I, p. 301

‡ Vol. I, pp. 263 to 291.

§ Vol. I, p. 303

The Weakness of the Settlement System
over China, they continue to rise in the Settlements of Shanghai.

The rule of law in these Settlements is in fact the axis upon which the economic relations of China with the other three-quarters of humanity turn. Its removal would work serious injury to foreign trade, but to China herself ruin. The political aspect of the problem is of greater importance. There are those who believe that China is doomed to perpetual anarchy, and those who insist that unity and order can only be restored by another dynasty. These "realists" are men wrapped in the past, whose eyes have never been opened to see the world as it now is—of all dreamers the most futile and no safer as guides than people who walk in their sleep. Dr. Sun Yat-sen was a genuine realist when he told his people that order and unity could only be maintained through a government responsible to themselves. But a government of that nature can never be established till a certain number of the people and their officers grasp what the rule of law means and absorb the idea as a habit of mind.* The Chinese who live in the Settlement are rapidly doing this. Their progress has been quickened since their own representatives have sat in the Council. The truth that popular government must be founded on law is spreading from them to the rest of China. Ideas are more portable than flags.

V. THE WEAKNESS OF THE SETTLEMENT SYSTEM

THOUGH the Chinese have now been admitted to a share in the government of the Settlement, they can never forget that the system was forced on China. In spite of all the material advantages they have reaped, it is felt as a standing insult, and therein lies its weakness. The fact that a council, which till lately consisted of nine foreigners elected by some hundreds of foreign renters,

* Vol. II, p. 180.

Shanghai

has established a sufficient protection against civil disturbance, crime and disease in a great sea-port which is mainly Chinese is an almost incredible achievement. But the system is too much fraught with dangers and anomalies to last. It costs money, and while the Chinese ratepayers were far more numerous and, in the aggregate, contributed more of the revenue than the foreigners, they had till lately no representation and thus no guarantee that they would receive their fair share of such amenities as hospitals, schools and parks.* The one factor that unites the whole of China, North and South, including the Chinese in Shanghai, is resentment against the "unequal treaties." It was this resentment which started the Taiping rebellion, led to the Boxer rising in 1900, and in 1911 dethroned the Manchu dynasty, whose weakness and incompetence had exposed China to these and other indignities at the hands of the foreign Powers.

A factor, less obvious but more potent than hatred of foreigners, was the influence of foreign ideas. The educated class, who had studied in missionary schools and foreign universities, lost the beliefs which for ages had supported dynastic government in China. Graduates of a modern university find it hard to believe that the government of a whole nation is divinely entrusted to a single family. In matters like these a few thousand intellectuals wield more influence than millions of illiterate peasants. In China the revolution of 1911 did more than dethrone a particular dynasty. It ended the ancient and traditional system of government.

Sun Yat-sen, the leader who inspired this revolution, was a doctor trained in the medical school of Hongkong. Devoted to China and wholly disinterested, he was classed as a visionary by officials, foreign and native, and also by journalists; so the world at large regarded him as such. His tactical errors supported that view; but in fundamentals the man was a realist. He saw that western ideas had

* Vol. II, p. 91.

The Weakness of the Settlement System

destroyed the foundations of monarchy in China, and that popular government was the only durable alternative. But he realised how difficult it is for people long ruled by a despotism to acquire the art of governing themselves, and devised a plan which, as he hoped, would help them through the transition. His organisation, the Kuomintang party, was to take charge of the revolution and unite China under a government strong enough to keep the peace. A period of tutelage was to follow, during which the party, while controlling the government meanwhile, was to train the people in the art of governing themselves. The defect in this project has been ignorance in the tutors of the principles that Sun Yat-sen taught them and expected them to teach. The party too often thinks and acts as though it were the dynasty in commission.

In 1911 when the Manchu dynasty collapsed, Dr. Sun effaced himself and invited Yuan Shi-kai to become president of the Republic. Yuan accepted the invitation, in his heart believing that no system of government was possible for China but a military autocracy. The western Powers, who shared his view, helped him with loans to establish his rule. During the war of 1914-18, when their hands were full, he announced his intention of ascending the throne. But his courage failed him at the last moment, and when he died he left China a prey to the soldiers whom he had trained to support his pretensions. The country is scourged with them still.

Dr. Sun realised the need of foreign help and advice in his formidable task. From England and America he sought it in vain, for his character as a visionary stood in his way. The Powers of Europe had put their money on Yuan Shi-kai. In 1923 Dr. Sun was offered the help he so sorely needed by Soviet Russia, and accepted the offer, though fully alive to the danger that Russia would use China as a pawn in her scheme for world revolution. On March 12, 1925, he died of cancer.

In Russian eyes, England was the champion of capitalism,

Shanghai

and the arch-oppressor of weaker nations. It suited both Russia and the Kuomintang to have trouble with England, and Shanghai was the likeliest place to have it. To the minds of police officials in the foreign Settlement the task of maintaining order in the streets was more present than the wider political reactions that might follow the measures they took. The catastrophe came on May 30, 1925, when the police of the International Settlement opened fire on a mob of riotous students. The immediate result was a wave of resentment throughout China and a boycott which dealt a staggering blow to British trade. In Shanghai the relations of British and Chinese had never been so tense.

The Municipal Council, taught by their heavy responsibilities, were the first to realise the importance of friendly relations with the Chinese. They had done their best to repair the fatal mistake made when provision for Chinese representation was omitted from the Land Regulations. But their efforts were frustrated by the rigid character of those regulations. Nothing could be done without the consent of the foreign land-renters in public meetings, and these meetings were dominated by men who lacked the experience of those who sat on the Council.

The events of May 30, 1925, led to a grave situation, and wiser counsels began to prevail. At the annual meeting of the ratepayers in April, 1926, Mr. Fessenden, an American lawyer who was chairman of the Council, was authorised to take the steps necessary to add three Chinese representatives to the Council. The Ministers at Peking acquiesced, but the Chinese ratepayers in Shanghai were unwilling to accept so small a representation. The matter was compromised by an offer from the Council to co-opt six other Chinese to their standing committees. The first three Chinese councillors took their seats on April 20, 1928. The experiment was so successful that two more were added in 1930. The refusal of a sparsely-attended meeting of ratepayers to ratify this measure was overcome by a second and larger meeting, which reversed the previous

Genesis of the Feetham Report

decision by an overwhelming majority. The Council now consists of two American, five British, five Chinese and two Japanese members, in all 14. The change has led to a marked improvement in racial relations, and to general regret that it was not effected years before.

VI. GENESIS OF THE FEETHAM REPORT.

STEPS had been taken meanwhile to grapple with the problem as a whole. The Institute of Pacific Relations had inaugurated biennial conferences at Honolulu. To the second conference, in 1927, a party from Great Britain was invited, and Shanghai was one of the subjects discussed. In the course of this discussion, Professor Hornbeck, one of the American party, suggested that discussion would be more profitable if a careful survey were made of the whole municipal problem in Shanghai. A seed was thus dropped which was destined to germinate. In 1929 a third conference was held at Kyoto. At the last moment a desire was expressed that some spokesman from the foreign community in Shanghai should be present, and at the suggestion of the chairman of the Council, Mr. Jerome Green, the leader of the American delegation, invited Mr. Fessenden, who now held the position of general administrator to the Municipal Council, to attend as one of the American group. Upon his arrival, Mr. Fessenden announced the intention of his Council to invite some independent person with the necessary municipal, political and judicial experience, but with no previous bias, to survey the problem and advise the Council how it should be solved. Soon after his return to Shanghai, the Council, supported by its Chinese members, appealed to General Hertzog in South Africa to lend them the services of Mr. Justice Feetham. General Hertzog promptly responded, and the Judge arrived in Shanghai at the end of January, 1930. After eighteen months' laborious

Shanghai

enquiry, three instalments of his report have now been issued and a fourth, dealing with points of detail, is to be published shortly. The first is a survey of the problem, the leading features of which we have tried to outline in this article. A few days before the arrival of Mr. Justice Feetham in China, an Indian Nationalist, Dr. Datta, a close associate of Mr. Gandhi and now a member of the Round Table Conference, set down the impressions he had formed after a tour through the country. His letter is appended to this article in order that the reader may compare the conclusions formed by an Asiatic observer with those subsequently reached by the Judge after eighteen months' intensive enquiry. We now come to the Judge's recommendations contained in the second and third instalments of his report.

VII. THE RECOMMENDATIONS

AS the Judge points out, the whole intricate problem arises from treaties made between China and a number of Powers. Of these, the most vitally concerned are Great Britain, Japan, France, and the United States. Such a tangle can only be unravelled in conference between them. He advises that the foreign Powers should at the outset recognise that the goal to be aimed at is rendition of the Settlement to the Chinese, "followed by the grant by the Chinese Government of a Charter conferring rights of local self-government on the inhabitants of the Settlement—foreign and Chinese—whether as a separate self-governing unit or as part of a larger whole."^{*}

The present Settlement regime, as established under the Land Regulations, should be maintained on the basis of increasing co-operation between the foreign and Chinese communities, and such constitutional changes should be introduced as are necessary for the purpose of enabling the Chinese to participate effectively in the

^{*} Vol. II, p. 139.

The Recommendations

work of local self-government under some modification of the present system, and of thus paving the way to the eventual establishment of a new system based on a charter granted by the National Government.*

As steps to this ultimate goal, Mr. Justice Feetham suggests the following practical reforms.†

The Chinese members should be more in number than those of any other single nationality.‡ Alternative enlargements of the Council to effect this purpose are shown in the following table:—§

			Elected by vote of ratepayers.	Elected by chambers of commerce or similar national bodies.	Total.
Council of 22 members—					
Foreigners..	..	..	9	5	14
Chinese ..	..	..	5	3	8
Council of 25 members—					
Foreigners..	..	..	9	7	16
Chinese ..	..	..	5	4	9
Council of 28 members—					
Foreigners..	..	..	9	9	18
Chinese ..	..	..	5	5	10

Councillors in future should hold office for two years instead of one, so that half the Council would be re-elected annually. These elections should take place after the annual meeting of ratepayers. An election law should be introduced, containing the usual safeguards against corruption, etc., and providing for vote by ballot.¶

In addition to the annual meeting of foreign ratepayers, there should also be an annual meeting of Chinese ratepayers, chosen in accordance with a scheme approved by the Council on the recommendation of the Chinese

* Vol. II, p. 140.

† The highly condensed summary which follows is by no means exhaustive of the recommendations contained in Vols. II, III and IV of the report.

‡ Vol. II, p. 181. § Vol. II, p. 194. ¶ Vol. II, pp. 188-9.

Shanghai

members. The meeting of foreign ratepayers would continue as at present, until it has approved a scheme for a smaller representative body submitted by the Council. The budget and other resolutions would then be submitted to both meetings. Should they concur, their joint decision would be binding on the Council. In the event of their differing, the resolutions would be advisory only, and the final decision would rest with the Council. The two meetings might elect separate auditors if they could not agree on a single one.* A special committee representing the various nationalities and standing committees on the Council should be constituted to advise on the engagement or dismissal of senior officials.†

The Council should have power to make bye-laws without submitting them to the approval of the ratepayers in meeting. But proposed bye-laws should first be published for public criticism, and should then be discussed by the Council in a public session held for this legislative purpose.‡ The Council should also have power to make bye-laws for the purpose of applying Chinese laws in the Settlements, subject to such modifications as circumstances might require. A body of six or nine persons should be constituted to confirm bye-laws passed by the Council. At least one-third of its members should be nominated by the Chinese Government, while the rest should represent the group of foreign consuls in Shanghai.§

The general and exclusive character of the Council's administrative powers in the Settlement should be laid down in comprehensive and unambiguous terms.||

Where possible, the Council should make agreements with the Chinese Government for collecting national taxes in the Settlement for that Government.¶ It should aim : (1) at co-ordinating its policy with that of the French concession and the municipality of Greater Shanghai ;**

* Vol. II, pp. 182-3.

§ Vol. II, pp. 212-219.

** Vol. II, p. 138.

† Vol. II, p. 189.

‡ Vol. II, p. 224.

§ Vol. II, p. 184.

¶ Vol. II, pp. 222-3.

Method of Revision

(2) at establishing joint institutions with those authorities ;*
(3) at creating an authority consisting of representatives of the three areas, to the costs of which it should contribute on the basis of rateable value.† In pursuance of this policy the Municipal Council should seek to obtain from the mayor of Greater Shanghai delegated authority to enable it to exercise effective administrative control over the external roads and the land and properties fronting on such roads, or to which access is obtained from such roads. The Council should have power to tax these properties, and pay part of the proceeds to the municipal government of Greater Shanghai to meet the cost of administering the undeveloped rural regions lying between the roads. These areas should be developed in accordance with town-planning schemes prepared by the two authorities in consultation.

These arrangements should lead on to the creation of a new authority to administer the areas covered by the outside roads, consisting of : (1) nominees of the mayor of Greater Shanghai ; (2) nominees of the Council ; (3) representatives of the residents and property owners, foreign and Chinese, of the areas concerned. A charter might be granted to this body by the National Government, thus opening the way to the formulation of a general charter for Shanghai, when the time for rendition has arrived.

VIII. METHOD OF REVISION

AS noted above, Mr. Justice Feetham considers that a problem so intricate can only be unravelled in a conference between the governments of China and those of the principal Powers.

The Settlement, when its position and functions are rightly understood, means too much to China and to nations trading with China—

* Vol. II, p. 225.

† Vol. III, Chapter IV.

and therefore to the world at large—to have its affairs left to the hazards of piecemeal and makeshift arrangements, or to be permitted to remain indefinitely a subject for irritating and inconclusive international controversy.*

He adds an impressive warning against any attempt to fix in advance the period within which the goal of rendition can be reached.† Negotiations between the governments concerned would be rendered abortive if extremists knew that the need for negotiations would close automatically on a certain date. The fixture of that date would destroy the sense of security that has made Shanghai the economic centre of China.‡

"Any failure to maintain law and order in Shanghai, which proved sufficiently serious to interfere with the atmosphere of confidence and security essential to the conduct of large business operations" would have far-reaching economic effects in interrupting the flow of international and internal trade, and would cripple the national Government financially by drying up the sources of very nearly one half of its entire customs revenue, a large proportion of other revenue, and the bulk of its domestic loans.

Without going into further details, it is clear that, in questions affecting the future government of the foreign Settlement, the interests at stake are not only the vested interests of firms and individuals, foreign and Chinese, engaged in trade or industry within its limits, and their employees, but general economic interests of a far-reaching character, which include the interests of all those regions in China for which Shanghai serves as a trading or banking centre, the national interests of China as a whole, and the interests of other nations according to the varying degrees in which they share in China's foreign trade.§

On one further point he is equally definite in his view :—

The provisions of the Land Regulations which link the system of municipal government with the system of extra-territoriality constitute to-day essential props, which are necessary for the support of the existing municipal institutions of the Settlement : the Chinese

* Vol. II, pp. 151-2.

† Vol. II, p. 139.

‡ Vol. II, p. 74.

§ Vol. II, pp. 105-6.

British Diplomacy in the Far East

courts are not as yet in a position to afford the support which would be necessary to maintain the system if these props were withdrawn. Further, the conditions of personal freedom, and security of life and property, which have made it possible hitherto for individuals to work these institutions by their personal activities, either as councillors, voters or officials, are themselves the product of the extra-territorial system, and, until the rule of law has been established in China in such a way as to safeguard effectively the ordinary citizen in the exercise of his personal rights, and the performance of his civic duties, abolition of extra-territoriality would destroy the vitality of the present municipal institutions.*

IX. BRITISH DIPLOMACY IN THE FAR EAST

LORD IRWIN has urged that if England can discover the true interests of India she will, in doing so, discover her own. That statement is founded on the truth that the welfare of India is part and parcel of the welfare of society as a whole, of which England herself is a part. It applies, not only to India, but to the whole field of external affairs. But this certainly does not mean that British diplomacy can do its duty simply by conceding whatever demands are made on it. Lord Irwin, believing that responsible government is best for India, has firmly refused claims which, if granted, would ruin her credit and bankrupt her first responsible government.

It cannot be said too often that foreign Powers, in trying to adjust their relations with China, will find and serve their own interests only by seeing and seeking hers. But genuine friendship must be guided by ideas more constructive than an indolent readiness to gratify popular slogans. Throughout the Anglo-Saxon world public opinion is deeply anxious to help China along the path to responsible government, but needs to be sure that changes proposed do not lead in the opposite direction. As to how this may be, the darkness in which modern diplomacy has shrouded those problems makes it difficult to judge. Parliaments and the peoples they represent

* Vol. II, p. 149.

Shanghai and Nanking

have long been looking in vain for any clear guidance from those on the spot.

Mr. Justice Feetham's Report is the first clear rift in the smokescreen of secret diplomacy which envelops the Far East. If such a report had been published years ago, a series of catastrophes might have been avoided. As it was, the whole atmosphere was clouded by ignorance, and therefore poisoned by prejudice, till the British and Chinese councillors in Shanghai resolved to institute an impartial enquiry. They selected for the purpose a judge who had no previous knowledge of the facts upon which he was called to pronounce, and whose findings could not be affected by any personal interest of his own. His terms of remuneration, fixed at his own request, were that he should receive for his services in China the pay and allowances which he ceased to draw during his absence from South Africa. The detachment from all material influence, which a judge worthy of his calling desires, was thus safeguarded. The respect which he earned from the Chinese community in Shanghai was courageously expressed in a farewell speech by their stalwart leader, Mr. Yu Ya-ching.

The Times in a leader published on July 29 raised the question why British diplomacy, long quiescent, became so unusually active at Nanking at the very moment when Mr. Justice Feetham was about to report, and observed significantly, that, before the British Government is committed, public opinion is entitled to expect that his views will be fully considered.

It may also be added that public opinion in a world wider than England will expect no less. The issues at stake, as revealed in this document, are not confined to England and China, but involve the relations of a number of Powers in treaty with China, especially those of America, France and Japan. The tangle can only be unravelled in a conference between the principal governments concerned, such as took place at Washington in 1921. It is in such conferences that foreign statesmen can best find how really

Appendix

to help the sorely stricken people of China to emerge from chaos and achieve order by learning how to govern themselves.

APPENDIX

LETTER FROM DR. S. K. DATTA

HONG KONG, *January 3, 1930.*

My mind has been concerned quite recently with the influences at work in Asiatic countries which have had such a profound influence on our outlook as Asiatics—and particularly in the political realm. The time is not yet, but some day an Asiatic historian will arise who will point out that the most powerful influences have not been political dicta whether from the pages of Burke or Macaulay—or even the University of Columbia (U.S.A.)—but those institutions which the Anglo-Saxon trader considered necessary for his well-being and protection. My mind will dwell on these old settlements which girt the south-eastern and eastern coasts of the Asiatic continent. Bombay, Madras, Calcutta, Malacca, the infection turned the coast and Canton cum Hongkong were created, Shanghai, Tientsin, Kobe and Yokohama. Every one of the Chinese and Japanese settlements had a bund, an Indian word which means the water-bank. These settlements needed a few clean streets, a watchman or two, and thus were founded the first municipalities which did not emanate from above, but were the expression of the wishes of the small group of foreigners, who had certain common concerns such as sanitation, pure water, lighting and protection against thieves. In the second place a court made its appearance, to do justice between Englishman and Englishman, but its prerogatives soon included that of protecting the subject from the invasion of his liberties by the executive. Indeed, the Calcutta Supreme Court had to be restrained by British parliamentary legislation from interfering with the executive in the discharge of its legitimate functions.

Now, as we look back, is it not of significance that since 1884 in India nearly 800 municipalities have come into being, and over 1,200 district and taluq boards and union boards? In other words, India has to-day over 2,000 of these self-governing bodies—education, sanitation, roads, traffic. The expenditure which they control amounts to-day in Chinese currency to 500,000,000 Mexican dollars—a sum that Mr. Soong, the Nanking Finance Minister, hopes some day to collect as the national revenues of the Chinese Republic. Is it any wonder that the Congress boycott of legislatures does not include municipalities? My only regret is that "security" has not

Shanghai

been transferred to these bodies, for I believe that they would have been better able to control Hindus and Moslems in their mutual jealousies and frictions—better than the central government has been able to do. It would also have helped these local bodies to shoulder greater responsibilities. However, let this pass. I think we may say that two great lessons have been learnt, or are in the process of being learnt.

The vote as a method of control—in other words the parliamentary system. Do you remember the Akali controversy in the Punjab which darkened the years 1923-24-26? The Sikhs in the Punjab desired to get control of their sacred shrines, whose endowments had long since passed into the hands of hereditary trustees—the abbots and their descendants. The Government refused to intervene, saying that they had merely recorded these rights when the Punjab was annexed. The Akalis adopted “peaceful” invasion of these properties. Finally, the Government yielded and asked the Sikhs if some 200 new bodies of trustees could be created. The reply was clear: the Sikhs asked that a board of trustees should be created consisting of 150 Sikhs who should be elected by adult suffrage of all Sikhs, both men and women. This proposal was incorporated in the Gurdwaras Act and is to-day law. Every three years elections are held in the Punjab; ballot boxes, electoral rolls, election officers form the apparatus for the creation of a company of spiritual trustees—if you like. The other lesson learnt is that of the necessity for accounts and audits of public monies. Study Indian legislation and notice the frequent reference to Bills introduced by Hindu and Moslem legislators—provide for the account and audit of religious endowment funds. I mention these cases particularly because they concern a domain where the British Government has been afraid to initiate anything; if there has been a change it is due to the efforts of non-official members of the legislatures, who have behind them an enlightened public opinion.

In India it is not merely the municipalities and local bodies which have been centres of responsibility and government, but the same principles are being slowly—very slowly it may be—carried into the agricultural co-operative movement. India has to-day 75,000 of these bodies—90,000 if you include the Indian States—with a membership of over three and a half million. Here heads of families have the responsibility of electing their officers, arranging loans, assessing the credit of their fellow members, conferring with the auditor regarding their accounts.

In the municipalities, district boards and co-operative societies there is real responsibility, not the shadow of it. That is within the limits of their responsibilities, hence you never hear of “throwing out the budget” in these institutions.

Appendix

The Indian political situation, as I see it, is the result of a people's "democratic" movement from below, which is engaging itself with the Government at the top, which, in theory at least, is autocratic. It is just the battle between two principles; they have come into conflict. Dyarchy was one method by which the antinomy was to be adjusted and, as you say, temporarily a passing stage.

But I seem to have overlooked the other institution to which I referred—the law courts. Of all British institutions in India the High Courts have rarely been criticised. They have been used by the people and have been looked upon as the bulwarks of their personal liberties. Sometimes your countrymen twit us as to our litigious practices, but is it not a great tribute to the law courts that they are used to the great extent they are? Sun Yat-sen has said that individual liberty did not matter to us in India; it has become our most prized possession. One hundred and fifty years of British law have done this for us. But these early municipal institutions along the Asiatic coast gave to the East two other institutions. Often to these settlements came Englishmen, quite frequently of shady reputation; drink quite commonly was a weakness from which they suffered. They settled down and established a newspaper and no one, not even the "President in Council," was exempt from their criticism. Calcutta had some scurrilous journals. Some of the journalists found their way to prison, not for sedition, it is true, but because they would not pay their debts. These gentlemen were the founders of the "freedom of the press" in Asiatic countries. The other institution was the right of public meeting. I do not know whether you will recollect that even to this day the three cities of Calcutta, Madras and Bombay have officers called Sheriffs, nominated not by the executive but by the High Courts—now a purely honorary appointment, but in the old days, if the British traders desired to ventilate a grievance or congratulate a governor they had the right to call upon the Sheriff to summon a meeting at the Town Hall. This right still continues, the request of the citizens is still called a "requisition." From those municipal rights came the notorious meetings at which Macaulay was attacked when he wished to empower the mofussil (outside the presidency towns) courts to try European British subjects, at which Grant, Lieutenant Governor of Bengal, when he stood out as the protector of the indigo plantation workers against the indigo planters, or later, Ripon and Ilbert were the objects of the scurrilous abuse of the Calcutta box-walla when they proposed an amendment of the Criminal Procedure Code to permit Indian magistrates to try Europeans. However unfortunate these attacks were in their violence, yet the lesson was not thrown away; India, too, awoke to the power of the public meeting. Out of the Ilbert controversy came the Indian National Congress.

Shanghai

These are but a few sketchy notes. Some day it may be possible to investigate with more care the statements I have made. I wish I had the time and leisure. In the meantime this letter goes to you. I am convinced that in throwing responsibility on larger and larger numbers of people "citizenship" can alone be learnt.

My calculation is that the franchise in India is as follows:—Legislatures, 8,000,000, municipalities, 8,000,000, total, 16,000,000. But I may be wrong—considerably out in my calculations. Municipalities and district boards have over thirty thousand elected members.

NOTE

According to an announcement in *The Times*, copies of the Feetham Report are obtainable through booksellers from Messrs. John Pook & Co., 68, Fenchurch Street, E.C.3, London agents of the Shanghai Municipal Council

THE CRISIS AND ITS BACKGROUND

WITH the remorseless march of a Greek tragedy, the logic of events is working itself out. As the depression has proceeded on its devastating course, its scope has progressively widened. It has become world-embracing, and, more serious still, its origins are now revealed as springing not from the operation of any ordinary trade cycle, but from fundamental defects in the financial, economic and political structure of the post-war world. The point has been reached when it has become evident that no single country by its individual efforts can stem the flood which has burst its banks and is threatening to wash away the foundations of credit and confidence, upon which our modern civilisation is built. By international action alone, by the whole-hearted co-operation at least of the countries with the largest stakes and the heaviest responsibilities in preserving the stability of the society of nations, can the flood be tamed and brought back to safe and ordered channels. Moreover, it has become patent that economic and financial action will no longer suffice to cope with the situation, since the prevailing economic and financial troubles are in a large measure but the symptoms of deep-seated malaise in the field of politics. The crisis of July 1931 is the combined product of the political and economic maladjustments under which the world has been labouring since its old balance was destroyed in July 1914. No new equilibrium has yet been found. Since the war there has

The Crisis and Its Background

been a series of more or less violent oscillations. Two or three years ago their comparative mildness and the general advance towards recovery created the belief that at last the fresh balance was being struck, that the waters were being peacefully canalised in the new channels. The events of the last two years have finally dispelled that illusion. The climax to which they inexorably led has now demonstrated the need for restating the whole problem and for working out its solution systematically from the beginning.

I. ECONOMIC INTEGRATION SINCE THE WAR

FOR a proper understanding of the problem it is first of all necessary to realise its setting. The world of to-day is very different from the world of 1914. It has made immense strides in integration. By the rapid improvement of all sorts of communications its economic intercourse has been intensified and internationalised to an unprecedented degree. The economic consequences of radio-telephony alone are incalculable. The rapidity and security of air travel have made international business possible and profitable which would never have been contemplated in pre-war times. The perfection of type-writing and printing machinery and of the ordinary telephone have rendered the exchange and distribution of information enormously easier than in the old days. Even the spread of linguistic knowledge and of international broadcasting has done much to promote commercial intercourse between nations. As a general result, business is conducted at much higher pressure. Not only has the nervous tension of individuals been thereby sensibly increased, but also that of nations. By these mechanical inventions international nerve tissues have been multiplied and rendered highly sensitive. Good tidings or bad tidings fly with tremendous rapidity. The reaction to them all over the globe is not only almost instantaneous,

Economic Integration since the War

but also far better informed and more far-reaching in its effects, because the web of international relations has become so closely woven and so infinitely complicated. All these things are commonplace enough, but they can hardly be sufficiently emphasised, for their profound economic bearings are still very inadequately appreciated.

In the economic sphere, then, the world has become a highly complex single organism. Damage or weakness in one part quickly sends waves of doubt and depression vibrating through the whole system, which tend to slow down the general rhythm of its commercial circulation. A fresh outbreak of civil war in China, a revival of boycotting activity in India, a threatened bank failure in Austria, a sharp fall in wheat prices in Chicago set nervous currents tingling all through the world, stronger or weaker according to the actual gravity of the specific event, but all of them producing some measure of economic disturbance. Yet although this process of integration is clearly producing extensive modification in the structure of industry and finance, it has gone forward without plan or system. As yet only a few isolated attempts have been made to establish the checks and controls which are necessary to ensure the smooth working of any piece of complicated machinery. Hitherto the haphazard methods of pre-war times have been thought sufficient, but events are now beginning to shake the old faith in the blind operation of "economic laws" as furnishing the best guarantee for universal prosperity. As will be seen, conscious attempts to guide and control economic tendencies are already being undertaken in some cases and advocated in others.

But if there has been a powerful movement in the direction of integration in the economic sphere, it has not been paralleled in the realm of politics. At a time when the currents of trade and finance were beginning to flow more abundantly than at any previous time, they found themselves barred by all kinds of new political obstacles from carving out the new and broader channels which they

The Crisis and Its Background

needed. The effect of the Peace Treaty was in the direction not of integrating the economic life of Europe, but of further disintegrating it. At a time when international intercourse was inevitably becoming closer, economic nationalism was raising fresh barriers in its path. The new States of central and eastern Europe attempted to foster industries which could not flourish on a purely economic basis, inspired partly by motives of national defence, partly by the belief that industries, however artificial their foundation, were somehow a source of national strength and prestige. Hence they sought to buttress industrial enterprise by tariffs, subsidies and prohibitions, which ran counter to the natural tendency towards closer and more widespread international commerce. This contradictory phenomenon was by no means confined to Europe. Countries like Canada, South Africa and Australia with small populations deriving the greater part of their wealth from the export of raw materials and foodstuffs, proceeded likewise to develop home industries behind tariff walls of increasing elevation on the supposition that they could continue to sell their wheat, fruit, wool and hides on an even larger scale than before the war, while at the same time reserving their home markets to their own manufacturers. A yet more striking example of the same faith was furnished by the United States. In pre-war days she required an excess of exports over imports with which to redeem the capital and pay the interest on her debts to Europe. After the war the situation was practically reversed. The United States had become a creditor instead of a debtor nation; yet from 1922-1930 her excess of exports was about the same as in 1913, an average of \$700,000,000.* But instead of being balanced by outgoing payments, this surplus was augmented by large receipts in respect of public and private debts abroad. Nevertheless, the tariff was once again revised upwards

* *Our World Trade in 1930*, p. 3. (United States Department of Commerce, April 1931.)

The Collapse of Prices

in 1930, and reached a height never previously attained. Without attempting at this stage to estimate the consequences of this general growth of nationalism in economics, it is sufficient to note it as a potent force working in opposition to the inevitable tendency towards closer integration which has developed since the war. It is hardly open to doubt that this conflict has been a powerful factor making for disequilibrium. The truth is that we have constructed a twentieth century economic world which we are still trying to reconcile with eighteenth century political ideas.

It remains now to review the different fields of economic activity and to attempt to apportion the responsibility between this and other factors for the breakdown which has occurred.

II. THE COLLAPSE OF PRICES

THE extent of the depression is so vast and its various manifestations, agricultural, industrial, commercial and financial, so closely interconnected that it is difficult to treat them in isolation. It would probably be agreed, however, by fairly general consent that its kernel is to be found in the rapid fall in the prices of raw materials and foodstuffs and that no remedy which does not to some extent restore the price-level can be regarded as satisfactory. The first step therefore is to consider the causes of the decline.

By 1925 the first stage of recovery from the effects of the war had been completed. Currency had been restored to a stable basis in nearly every country in Europe by the re-adoption of the gold standard. Reparations had at last been regularised by the Dawes Plan. The index of European production exceeded that of 1913 for the first time, while the other continents had already substantially

The Crisis and Its Background

surpassed their pre-war output. This general progress continued steadily and satisfactorily during the next four years, as may be seen from the following table of industrial production indices* :—

Year	United Kingdom (1924 = 100)	Canada (1919-24 = 100)	United States (1923-5 = 100)	Germany (1928 = 100)	France (1913 = 100)
1924	100	116	95	69	108
1929	112	193	118	102	139

This great increase in productivity, achieved as it was with shorter hours of labour and for the most part with higher real wage-standards than in pre-war times, might reasonably be taken as indicating swift improvement in the world's material well-being and swift replacement of the losses caused by the war. Indeed, such remarkable progress had perhaps never been previously witnessed. In the three years 1925-28, the output of foodstuffs and raw materials increased by 8 per cent. and a similar rate of expansion was to be found in industry, while despite all lets and hindrances the volume of international trade grew by no less than 15 per cent.† On the surface the picture looked bright and the prospects for the future brilliant. It concealed, however, a great and growing discrepancy between production and consumption. Owing to the mechanisation of agriculture and improved methods of cultivation, the output of wheat, coffee, sugar and rubber outran the absorptive power of the market. In the case of wheat the combined average production of the United States, Canada, Australia and the Argentine for the years 1924-28 had increased by 50 per cent. as compared with the years 1909-13. In the interval, the world's population had increased by only 10 per cent., while in addition there

* Tables relating to British and Foreign Trade and Industry (Cmd. 3737), p. 375.

† *Economic Depression*. League of Nations, C. 284, M. 134, 1931, p. 2.

The Collapse of Prices

was a marked tendency to adopt a lighter and more varied diet to the detriment of bread in countries like Great Britain, France, Germany and the United States, where the standard of living was rising and the reduction of hard physical labour by the use of machinery made life possible on fewer calories. What was true of wheat was true of cotton. The simplification of feminine attire and the growing popularity of artificial silk would have caused an actual shrinkage in the consumption of raw cotton during the years 1927-29, had not an increased demand from the Russian mills and those of some other minor producing countries helped to keep it at least stationary. But production was far from remaining stationary, with the result that stocks continually mounted and prices were bound finally to break. The story of coffee, sugar, rubber, copper, lead, coal and other materials was very similar. By the application of intense mechanical, chemical and other species of scientific ingenuity the world had succeeded in immensely developing its productive capacity, but in spite of a series of prosperous years had failed to develop its consuming power in a corresponding measure. Indeed, its very success in reducing labour costs by substituting mechanical for manual processes weakened the market by making superfluous the labour of millions of persons, who had formerly earned their living by agriculture, and by thus throwing them on the industrial market at a time when in industry too labour was being eliminated in every branch through the introduction of machinery. Of this simultaneous revolution in farming and manufacture, for which there is no precedent, the United States furnishes the most outstanding example. In the ten years 1919-29, the agricultural population shrank to the extent of nearly 4,000,000, while the manufacturing and mining populations had likewise contracted considerably in spite of an enormously enhanced output. Paradoxical as it may appear, it is hardly open to question that an appreciable proportion of the unemployment now so widely prevalent is the

The Crisis and Its Background

token and the price not of poverty, but of vastly increased wealth.

In the case of raw materials and foodstuffs, therefore, an unstable equilibrium existed by 1929. Prices were only maintained by piling up stocks, which could only be held as long as future prospects seemed good, but which were bound to precipitate a heavy fall in values, as soon as unfavourable signs became discernible. The production of all the staple commodities was so widely distributed over the world that it was beyond the power of any nation or national group to control their output and uphold their prices. The attempt to regulate the production of rubber by the Stevenson scheme failed, because it was not sufficiently comprehensive in its scope. The efforts of the Federal Farm Board in the United States, and of the wheat pools in Canada to sustain the price of wheat failed for a similar reason. Other schemes more international in character broke down on other grounds, and all these failures to secure controlled production and steady prices resulted in a further weakening of the value of the commodity with which they were concerned. Nevertheless, they were groping towards some international system of regulation, which alone could ensure the producer against the disastrous effects of over-production. The spectacle of those effects since the depression has set in, so far from suggesting that such endeavours are futile because they failed, has rather stimulated greater efforts to ensure success. The output and marketing of sugar is now regulated by an international agreement. The agricultural countries of Eastern Europe have established an organisation for selling their cereals in order to prevent mutually destructive competition; but the result of the Wheat Conference at Rome in March 1931 was to show that no attempt to deal with the wheat problem could hope for success, unless it was conceived on an universal basis. The result was the meeting of all the wheat exporting countries in London in May, including both the United States and the U.S.S.R.,

The Collapse of Prices

and the creation of an organisation which may prove a first step towards regulating wheat exports throughout the world. The need for some similar attempt is being increasingly felt in the coal industry in Europe, where again potential output has been raised by technical improvements to a point far in excess of the possible demand in the face of the development of oil and water as sources of power and the great economies effected in the use of coal itself. All these attempts to control output are symptomatic of the needs of a new age, in which international exchange has become so world-wide and production so prolific that its adaptation to consumption is no longer a local problem, but a continental or a world problem. No doubt the technique of such regulation is difficult and will not be acquired without a long period of trial and error. No doubt there are dangers to the consumer in concerted control of output and prices by the producers, against which safeguards may have to be provided. No doubt, too, limitation of output may risk prolonging the existence of inefficient plant and of restricting the development of more up-to-date and economical units. But these dangers are probably much less serious to the community as a whole than the ruin which may overtake the farmer, the planter and the mine-operator, together with their employees, under modern conditions of unrestricted competition. The nature and extent of that ruin is evident enough from the present plight of the countries mainly dependent for their national well-being on the sale of food-stuffs and raw materials, as may be seen by a glance at the distress of the farming and mining populations in the United States, Canada, the Argentine, Australia or Brazil. To prevent the recurrence of such catastrophes some form of international control will probably prove indispensable. It is, after all, only the logical extension of the principles of rationalisation which are being progressively applied within national industries. In many cases it is as yet unnecessary, and in some may never become necessary;

The Crisis and Its Background

but in the case of a number of the staple commodities intelligent and comprehensive agreement between groups of national producers may be found to afford the only security against the constant menace of ruinous over-production and permanent instability of prices.

III. THE EFFECT OF TRADE BARRIERS

BUT the fall of commodity prices was not only due to over-production. In spite of the accumulation of stocks the descent would not have been so precipitate, had disequilibrium not existed in other directions. Attention has already been drawn to the obstacles raised by trade barriers to the more intense intercourse between nations which technical progress had rendered possible and natural. Of this tendency some further examples may be given. In the first place the exaggerated protection afforded to the farmer in countries like Germany and France led to the maintenance of wheat lands which were utterly uneconomic judged in the light of their cost of production in comparison with world prices. In April 1931 the price of equivalent grades of wheat was \$7.5 per 100 kilos. in Paris and \$6.85 in Berlin, as compared with \$2.93 in Chicago and \$2.20 in Winnipeg. As a consequence, the price of bread was nearly three times as high in Berlin and considerably higher in Paris than in the free market of London, a serious difference which has its reflex in wage-costs in export industries. While no one would maintain that the French and German Governments would have been wise to dislocate their whole rural economy by exposing their farmers to the full effects of the slump in world prices, prohibitive tariffs in this as in other fields inevitably stand in the way of the full development of the world's resources. Moreover, the protective measures to which these and other countries were driven would not have been necessary, had not more extensive wheat cultivation often been deliberately en-

The Effect of Trade Barriers

couraged at a time when machinery and more scientific methods had enormously expanded the production of wheat overseas.

What happened in the case of wheat was repeated with manufactured products. The re-division of Europe in itself added thousands of miles of new customs barriers. The partition of economic areas like Upper Silesia, the reversion of Alsace-Lorraine and the attribution of the Saar to France, tended to duplicate productive capacity without duplicating possible consumption. Outside Europe, the British Dominions and India followed the European lead and proceeded to stiffen the protection of their new industries. In the exporting countries, like Germany and Great Britain, which saw their foreign outlets being closed, opinion began to veer towards relying more on the home market and reserving that for domestic industries, though as a rule it was generally tacitly assumed, as it was in the United States, that this process could somehow be carried out in such a way as not to interfere seriously with the ultimate recapture of the export trade. It is true that the World Economic Conference found in 1927 that "the recovery from the effects of the war has been unduly delayed and that the foreign commerce of all nations is in a greater or lesser degree seriously hampered by existing obstacles to trade." They pointed out that production in excess of demand had frequently resulted, with the consequence that capital equipment was not being economically utilised and rates of interest remained unduly high; that excessive protection defeated its own object by reducing national production and purchasing power; that the attempt to attain self-sufficiency usually involved a sacrifice of material prosperity. The Conference accordingly declared that "the time had come to put an end to the increase of tariffs and to move in the opposite direction."

These general truths are just as valid now as they were in 1927, yet in spite of a series of meetings convened by the League of Nations in order to translate them into practice,

The Crisis and Its Background

very little progress has been made. Tariffs have tended to rise rather than to subside. The vested interests fostered behind them have waxed stronger rather than weaker. Neither by means of tariff truces nor by means of international cartels has the situation been substantially improved; and as it has not improved, it has inevitably deteriorated. The failure to lighten the shackles on international trade has made everything more difficult. It has hindered the revival of the exporting countries, choked the outlets for the grain-producers, immensely complicated the problem of international payments, and thus aggravated the maldistribution of capital. The immediate benefits of trade barriers are frequently perceptible in reference to particular industries taken in isolation, but because their pernicious influence on the economy of nations, either separately or in the aggregate, is not so easily demonstrable, it is for that reason apt to be discredited or ignored. On a general view, however, it is not open to doubt that they have constituted a baleful disease checking the circulation of the economic system and in the end assisting the collapse of world prices.

IV. MONETARY FACTORS

IN addition to over-production and trade barriers, there were other causes at work, more obscure in their operation and more drastic in their effects. Owing to the redistribution of capital resulting from the war, to the failure of the creditor countries as a whole to utilise their resources in the general interest, and to the inability of the debtor countries to meet their obligations without heavy borrowing, the international equilibrium which is essential to the proper working of the gold standard has not been maintained. With the intensification of economic relationships, the preservation of balance necessary to ensure the even and healthy flow of gold and credit throughout the

Monetary Factors

world had become more vital and at the same time more delicate than before the war. But the legacy of the war itself in the shape of international indebtedness, depreciated currencies and disturbed political conditions made the automatic adjustment of the balance, which in former times had generally proved reliable, no longer an adequate or trustworthy method. A state of financial instability was created, which rendered insecure the whole fabric of credit, upon which the economic life of nations reposes.

It is unnecessary to summarise here the brilliant analysis of this monetary insecurity contained in the Macmillan Report, which is dealt with elsewhere in this number.* It will be sufficient to recall some of its main findings which point to the international origins of the depression and which demonstrate the impossibility of any real recovery until the political troubles, which have now clearly emerged as root causes of the existing financial chaos, have been effectually removed.

The maintenance of financial balance depends on money regularly and constantly irrigating the channels of production and trade everywhere. During the nineteenth century Great Britain as the principal creditor country had thoroughly assimilated the lesson that her own prosperity was bound up with that of the rest of the world, and that, accordingly, her interest lay not in hoarding her surplus receipts in the shape of gold, but in relending them to other countries in need of capital. One effect of the war was to modify profoundly the world distribution of gold. Of the total stock Europe's share was only £741 million, or 35 per cent., in 1925 as against £1,138 million, or 63 per cent., in 1913. North America's share, on the other hand, had risen from £429 million, or 24 per cent., to £950 million, or 45 per cent. The course of subsequent events did little to modify this redistribution until 1930, when gold flowed in exceptionally large quantities to Paris. No less than 78 per cent. of the world's gold was then

* See page 807.

The Crisis and Its Background

located in Great Britain, France and the United States, the two latter holding far greater quantities than the former.

As long as these accumulations were used as a basis for credit no serious evil resulted. During the years 1925-28, New York issued long-term loans to the extent of over £1,000 million, more than twice as much as London. American money thus flowing back to Central and South America and to central Europe did much to maintain and to develop the gradually returning prosperity. The boom on the stock market arrested this health-giving process. With the meteoric inflation of stocks, foreign issues lost their attraction. The high interest offered on call-money acted as a further deterrent to foreign investment. As the world hastened to take advantage of these unprecedented opportunities of profit, gold gravitated once more to the United States, but the counterbalancing foreign loans were no longer forthcoming. Simultaneously a like process was taking place in France for different reasons. These two concurrent and complementary drains on the credit system fatally deranged its equilibrium. The latent tendency towards price instability was quickly converted into a disastrous slump. Debtor countries, and in particular Germany, soon began to show signs of financial stringency, as the stream of foreign money began to dry up. The rhythm of German economic production began to slow down; unemployment began to assume alarming proportions. Worst of all, the sense of growing apprehension for the future, working on a public mind always highly nervous since the catastrophic days of the inflation, produced a feeling of despair which found expression in the elections of September, 1930. The rise of the Hitler party and the Communists, avowedly aiming at radical internal transformation and at repudiation of Germany's external obligations, at once aroused the dread of revolution within and of aggression without. The vicious circle was thus complete. The derangement

The Political Problem

of the international financial balance had produced a political situation which made an exit from the depression no longer possible by the aid of any purely economic or financial measures.

V. THE POLITICAL PROBLEM

TO anyone familiar with its working it had been obvious for some time past that the settlement of the Peace Treaty was becoming every year more precarious. In the course of a decade both the spirit in which it was dictated and the spirit in which it was accepted had become less and less real. Even in France, where perhaps the least modification had taken place, the recognition was growing that sooner or later some reconciliation with Germany must be worked out. Hence when in 1929 the British Government announced its intention of withdrawing its last remaining brigade from the Rhineland, France felt morally bound to follow suit. But although the period for the occupation was still far from completed, the time when its voluntary termination might have been welcomed in Germany as a friendly act, marking the beginning of an era of better understanding, had been allowed to slip. The interval since the signature of the Locarno Treaties had been too long for German patience, and for reviving German pride. Moreover, the death of Stresemann deprived the policy of rapprochement of its driving force at a critical moment. Without his leadership the country drifted for a while, during which the forces of Hitler, Hugenberg and Stahlhelm made rapid headway. By the time Dr. Brüning had gathered the reins firmly in his hands, the political atmosphere had undergone a significant change. The Social-Democratic party had lost much of its hold on the masses. Their moderate social policy was too extreme for the bourgeois elements and too timid for the millions of all classes who could find neither

The Crisis and Its Background.

jobs nor bread. Their moderate foreign policy was distasteful to the prevalent reasoning of despair which saw the source of all the miseries of Germany in the crushing terms of the Peace Treaty.*

The demagoguery of Hitler was much better attuned to the popular mood. He openly preached the repudiation of reparations as an unjust and intolerable burden. He exhorted Germany to abandon the League, which had done nothing to alleviate Germany's sufferings, and to trust to her own strength, since the Allies had not carried out the intention to disarm, solemnly proclaimed in Part V of the Treaty. So far as unemployment and poverty were not due to foreign oppression, he traced them to the malign influence of international financiers and profiteers and pointed to the destruction of the Jews, the nationalisation of the banks and department stores, and similar drastic measures as the true remedies. At this point he came near to the Communist programme, which was not widely separated from his, except that its inspiration was derived not from nationalism but from Leninism. Though Hitlerites and Communists fought each other fiercely in their weekly brawls in the suburbs of Berlin, their temperamental approach to the problem of national salvation did not greatly differ. Both were fundamentalists, who saw no hope in the existing order. In a Germany which was feeling the warming influences of returning industrial activity as in 1927-28, when foreign money was flowing in freely, or in a Germany still stunned by defeat as during the inflation of 1923, the great masses would probably have paid little attention to such doctrines. But in 1930 they made a strong appeal to large sections of the people, particularly to the youth of the middle classes, who knew nothing of the war but its privations, and who had been disillusioned of the belief that it would be succeeded by a new spirit of international amity. On the contrary, they found that they were called upon to pay until the end of their lives for a war, for which

* See THE ROUND TABLE, No. 83, June 1931, p. 499.

The Political Problem

they at least had no responsibility, that their families had often lost all their savings in the collapse of the mark, and that for many of them the shrinkage of the national wealth had wiped out all hope of an honourable professional career. Highly trained engineers were glad to stoke the boilers of pleasure-steamers or to run a tractor on some remote farm. Emigration overseas was no longer possible, as the doors were practically closed in the United States, Canada and Australia, and even in South America openings were not numerous. All the safety valves were clamped down, with the result that the spirit of revolt against existing conditions spread rapidly, not only among the working class, but also in the ranks of the bourgeoisie.

So remarkable was the progress of this spirit that it created serious doubts as to the political stability of Germany, both at home and abroad. Just at the time when the effects of the depression were being most severely felt, the financial position of the Reich, which had never been too sound, was being sapped by a discreet flight from the mark. Germans with capital felt that it would lie more safely in foreign banks. British and American financiers with short-term holdings in Germany felt more and more disinclined to renew them. During the period of reconstruction after the inflation there had been a great deal of unwise borrowing and extravagant expenditure, particularly by some of the big municipalities and industrial enterprises. There had not been time to restore the country's finances to a sound footing, so that when the crisis of confidence was superimposed on the depression, they could not stand the strain. By June the position had become so serious that President Hoover felt that the time had come to make a heroic effort to save the situation. He proposed a general moratorium for a year for both war debts and reparations.

But such a proposal inevitably raised political questions of the first magnitude. The French had already been profoundly disturbed by the proposed Austro-German Customs

The Crisis and Its Background

Union and the construction of the "pocket-battleships." The economic importance of the one and the military importance of the other were probably greatly exaggerated, both in France and Germany, but their political importance was undoubtedly immense. To the French they were the symbol of a renascent Pan-Germanism, to the Germans the symbol of restored national independence and self-respect. Hence Frenchmen were inclined to make their acceptance of the Hoover offer conditional on Germany's renouncing these two projects. The two Chambers were angry and alarmed. They felt that if once a breach were made in the Young Plan, it would never be restored. What was to prevent Germany from using the money for re-armament? Why should France suffer from the consequences of German recklessness in finance and politics? For a fortnight haggling went on in Paris over guarantees and conditions. By the time France had finally agreed to the Hoover plan, which had been hailed by the rest of the world with joy and relief, the potency of its charm had been lost. During the interval of uncertainty money continued to drain away from the Reichsbank by millions a day. The American offer was no longer sufficient to plug the leak, as, if promptly accepted, it might very possibly have been.

The first unmistakable sign of financial collapse came on July 13, when the Darmstädter Bank closed its doors. A crisis of unexampled gravity loomed in sight. Bank failures were reported all over central Europe. The Board of the Bank for International Settlements met to consider the situation; but in the face of the political circumstances which now overshadowed the economic problem they felt themselves helpless and turned over the task of preventing a general collapse to the governments. Confidence in the future was gone. The investor could no longer be induced to risk his money, as long as the possibility of social upheavals and bitter international disputes clouded the skies. The only hope lay with the statesmen and politi-

Prospects of Recovery

cians, who alone could conjure the smouldering fears and passions, which, fanned by the depression, now threatened to burst into flame. In these momentous circumstances the Conference of London met with the task of opening the political door which now apparently offered the only exit from the economic impasse.

VI. PROSPECTS OF RECOVERY

WITHIN a few days of its close, no one can say whether the Conference has succeeded or failed. It may be hoped and perhaps expected that the financial measures which it recommended will prove adequate to tide over the immediate danger, and to allow breathing space in which the work of devising lasting measures can be undertaken. But nobody supposes that the sickness of Germany, which is now spreading contagion to the rest of Europe and thence to the rest of the world, can be cured without the application of much more radical remedies. Temporary palliatives have been applied, but a major operation seems unavoidable. The question is how deep must the knife cut in order to excise the plague spot.

A reconsideration of the various sources of economic evil briefly summarised in this article will suggest at once that a permanent cure can only be effected by an extensive programme of international reconstruction, comprising co-operative action in the commercial, financial and political fields. An encouraging feature of the situation is the obvious soundness of the patient's constitution. The world has never been equipped to produce so much wealth so easily as at the present time. There is no question of impoverishment. If only the machinery of international credit and exchange can be so organised and controlled as to ensure its smooth and steady running, there is every reason to suppose that an era of unexampled prosperity might easily be launched. Even now there are signs that

The Crisis and Its Background

the seeds of a recovery are present, if uneconomic influences were not hindering their germination. What then are the main requisites for casting off the present depression, and for preventing other such calamities in the future ?

Unfortunately, the beginning must now be made with the political problems. These are not difficult to define in their main outlines, but their scope and ramifications are extensive. The first problem is the restoration of Germany, not only to financial soundness, but also to a sense of self-respect and international citizenship. For both these purposes some readjustment of international relations is necessary ; but how much is necessary and how much is politically possible ? A few months ago a further revision of war debts and reparations, towards which Mr. Hoover's offer was a first move, might have sufficed to meet the situation, at any rate for the moment. To-day it is no longer enough. The plebiscite in the Saar is nearly due. Its restoration to Germany would remove another sore spot. But there remain three other major bones of contention—the Customs Union, the eastern frontier and disarmament. If any of these questions were taken separately, they would probably prove completely insoluble. If they are made the subject of a general negotiation, some progress at any rate may be made towards changing the *status quo*, which has plainly become untenable. For this reason the establishment of friendly personal contact between the French and German leaders is perhaps the most important result of the London Conference. But both of them have a task of enormous difficulty. It may perhaps be suspected that the French people are much more disposed to seek reconciliation with Germany than the Parisian Press would seem to suggest. But they can hardly be expected to make all the concessions—to agree to a large measure of disarmament, to forgo a large part of reparations and to see the balance in central Europe drastically shifted without any countervailing security. In itself,

Prospects of Recovery

the suggestion that Germany should in her present financial straits abandon battleship construction was not unreasonable, but, however much the German leaders may have been inclined to agree, especially in view of the insistence on disarmament in England and America, could they accept such a proposal without risking overthrow by Hitler and his wild men? Similarly, the Customs Union has become a symbol in domestic politics. In so far as it has an economic justification, it is as a first step towards removing the tariff walls which are a source of division and weakness to all Europe. In its economic studies the Committee on European Co-ordination appointed by the Assembly of the League a year ago has been painfully seeking some method of commencing their demolition. Perhaps the sentiment in favour of the attempt is gradually gaining a little headway; but, unless it can be merged in some wider scheme of economic rapprochement, it is difficult to see how the Customs Union problem can be satisfactorily solved. Finally, the Eastern frontier is the most thorny question of all. Generally speaking, there have been unwarranted provocations and grievances on both sides, but few people unaffected by the violent propaganda current in Germany would suppose that all the demands of the Nationalists were reasonable. A settlement should not be impossible, if there is a general disposition to seek agreement at the Conference. That will not be easy, however, in the present state of public feeling in Germany and elsewhere, and unless agreement is reached, the prospects of disarmament will be seriously compromised.

To British and American minds, disarmament has become one of the keys to renewed prosperity. It is realised in the City, in Wall Street, by big business and even dimly by the farmer of the middle-west, that as long as rumours of war are prevalent, there is little hope of quiet and profitable business; and that rumours of war will persist as long as Europe is an armed camp. But the will to

The Crisis and Its Background

disarm depends on an absence of fear, and fear is unhappily far more prevalent on the Continent than in Great Britain and the United States. For a beginning of disarmament, a relaxation of political tension is therefore necessary. There are some factors in the situation, which are not without encouragement. First, there is probably no country in Europe where there is a real desire to fight. In spite of all the nationalist bombast which may be found in certain countries, there is no such general readiness to accept the hazards of war as there was in 1914. In the last resort it may be seriously doubted if the masses anywhere would march beyond their own frontiers. Secondly, the very gravity of the financial crisis has brought pressures to bear, which are bound to exercise a very powerful influence on events. The re-entry of the United States into world politics is a portent of great significance. It only occurred because American interests made it imperative, and after all, no nation acts from purely altruistic motives. Moreover, the harmony of interest between the British Empire and the United States makes combined action possible, which can perhaps do more than anything else to restore political stability. Neither can afford to see Germany go to the wall and Europe relapse into chaos. Both, through their comparative aloofness from European political affairs, are in a position to act effectively as mediators. Thirdly, the faint signs of a desire for understanding between France and Germany may develop into a thorough attempt to sink differences and establish collaboration. There are obviously some considerations pointing to the wisdom of such a course to which neither party is likely to be altogether blind. The question is whether there is sufficiently resolute leadership on both sides to swing public opinion into the path of conciliation.

The political outlook, therefore, though sombre, is by no means hopeless. If the political heavens began to clear, a revival of confidence would set in which would

Prospects of Recovery

have an immediate reaction on the economic position. Technical symptoms of recovery are already beginning to be discernible in the United States and elsewhere. But, just as the depression did not originate in purely political causes, so it cannot be finally cured by political measures alone. The maintenance of financial balance has now become an international problem of first importance. It is no longer sufficient to rely on the automatic interplay of economic forces. Skilled and conscious management of the currency system has now become a necessity, and efficient machinery for the purpose must be created. As the Macmillan Report very clearly shows, no Central Bank can hope to shape a successful policy in isolation. There must be commonly accepted principles of management, some of which have already been outlined by the Gold Delegation of the League, applied through closely co-ordinated action by the Central Banks themselves. There are many obstacles to the creation of such machinery ; but none of them is insuperable. In the Bank for International Settlements, the germ of a system of international control already exists.

Finally, in the fields of commerce and production, international rationalisation has likewise become indispensable. In the former, the world has got to free the avenues of trade from artificial obstacles, if it is to utilise its productive powers to the maximum. Here again the efforts towards a more unified Europe, which are being laboriously pursued under the auspices of the League, are first beginnings. Though the goal is still far distant, it is at least being consciously sought. The more successful the endeavours to maintain the fertilising flow of credit and to clear the channels of commercial intercourse, the less necessary will restrictive measures for the regulation of production and prices become ; but it seems probable that international agreements between producers will be found to be unavoidable in the case of many commodities for a considerable time to come. In fact, the need for

The Crisis and Its Background

intelligent and organised international co-operation has become imperative in the spheres of politics, finance, commerce and production alike. Without it the whole elaborate social and economic fabric which has built itself up may crumble and collapse. As Sir Basil Blackett said the other day, "if the machine which mankind has created is to remain his servant and not wreck itself and its creator," we must henceforth rely on planned direction instead of on *laissez-faire* and the unordered competition of individual enterprise. "Political and economic planning and co-operation form the task of the twentieth century." It cannot be accomplished, however, merely by nice calculations of immediate self-interest, either individual or national. It will need something more than enlightened egoism to ensure that at this "turning point of history," as the Prime Minister without exaggeration described it, the road to collective recovery is chosen in preference to the road to disintegration and disaster. The new order which the world now calls for cannot be planned and built without faith and vision. Is it possible to kindle to-day a spirit of constructive enthusiasm such as more than once has swept humanity forward on its way? Is the present generation too steeped in the cynicism of disillusionment to be incapable of the moral effort needed for its own salvation? Those are after all perhaps the ultimate questions.

AMERICAN POLITICS AND THE HOOVER PLAN

MONTESQUIEU is credited with having exclaimed: "Happy is the nation which has no history." The maxim may now be amplified. Thrice and four times happy is the nation which has no economics. Next in happiness to the nation without economics is the nation with no economics but its own. Whatever nations may be qualified to enter into either of these latter categories of felicity, the United States of America is not one of them. We are afflicted with our own economics and everybody else's. The humblest residents of Main Street are moved by the coffee situation in São Paulo; they study affidavits about the production of lumber on the Murmansk coast, and scan the records bearing on the production of copper in the High Katanga. Not a municipal budget in the Rhineland but may shake the plains of Kansas. One should perhaps apologize for the triteness of such observations. Yet it is not so long ago that they were considered rather daring, almost fanciful. As a creditor nation, we are cutting our eye teeth. And teething is painful.

The winter of our discontent—the second and far the worse winter of our discontent—sloped downward into the deepened despair of May. On June 2 the average of industrial stock prices was less than 80 per cent. of the low levels achieved on December 16; the average of railway stocks was less than 75 per cent. The utilities which proved the most resistant of the major groups were 10 per cent. below the December "lows." And the December lows had been hailed for months thereafter as the almost

American Politics and the Hoover Plan

irreducible minimum of American economics. On June 3, aided by a relaxation of margin requirements by the leading New York bankers, the tide turned momentarily upward. In the lingo of the financial journals, the June lows "have not been violated."

I. THE HOOVER PLAN: THE FIRST REACTION

CURRENT events have an extraordinary capacity to turn upon the most cautious of writers. On May 5, 1931, the author of *President Hoover at Mid-Term* in THE ROUND TABLE for June employed with perfect accuracy the following language:—

In general, the attitude of the Hoover Administration toward European questions has been the traditional one of American aloofness. In his pronouncement on Armistice Day, 1929, in favor of the immunity of food ships from seizure in time of war, Mr. Hoover showed a flash of that talent for world leadership which many of his countrymen had been looking for, but on the whole he has shown little inclination to make the United States exercise its potential influence in world affairs.

It would be difficult to find an example of an accurate generalization more swiftly or dramatically superseded. On June 20, less than seven short weeks after the writing of these sentences, Mr. Hoover stepped decisively into the international arena and showed a most striking inclination to make the United States exercise a marked influence in world affairs. In his statement he observed:—

The American Government proposes the postponement during one year of all payments on inter-governmental debts, reparations and relief debts, both principal and interest, of course not including obligations of governments held by private parties. Subject to confirmation by Congress, the American Government will postpone all payments upon the debts of foreign governments to the American Government payable during the fiscal year beginning July 1 next, conditional on a like postponement for one year of all payments on inter-governmental debts owing the important creditor Powers.

The Hoover Plan : The First Reaction

These two pithy sentences were followed by a list of Senators and Representatives who had approved of the proposal. General Dawes and Mr. Owen Young, authors of the respective "plans" for Germany, were also cited as approving. It was apparent that the President's proposal was at least not entirely a personal foible. The purpose of his action, he declared, was :—

to give the forthcoming year to the economic recovery of the world and to help free the recuperative forces already in motion in the United States from retarding influences from abroad.

He spoke of the fall in commodity prices, the impaired confidence in economic and political stability abroad, the abnormal movement of gold into the United States. Then with caution and faithful consistency he warned his readers that :—

reparations is necessarily wholly a European problem with which we have no relation.

I do not approve (he said) in any remote sense of the cancellation of the debts to us. World confidence would not be enhanced by such action.

This course of action is entirely consistent with the policy which we have hitherto pursued. We are not involved in the discussion of strictly European problems, of which the payment of German reparations is one. It represents our willingness to make a contribution to the early restoration of world prosperity in which our own people have so deep an interest.

And while the President conceived of his action as having no bearing on the conference for limitation of land armaments to be held next February, he said :—

inasmuch as the burden of competitive armaments has contributed to bring about this depression, we trust that by this evidence of our desire to assist we shall have contributed to the good will which is so necessary to the solution of this major question.

The immediate reaction to the President's proposal will be vivid in the mind of everyone. There was scarcely a stock or commodity market in the whole world that did not

American Politics and the Hoover Plan

leap upward like a balloon untethered. Within a week after the message stocks had recovered to the levels of mid-December. There are few precedents in America for so swift a recovery in Wall Street. While it is too early by perhaps a century to offer any very exact estimate of the ultimate significance of Mr. Hoover's proposal, it is of immense interest to political philosophers and those who moisten their fingers to feel the winds of public opinion.

It is reported that Mr. Hoover was extremely doubtful of the reception that his statement would receive from press and people. The enthusiastic response in this country seems in many ways highly anomalous. It is safe to say that at least until very lately the great bulk of American opinion has opposed anything like cancellation of the debts. Mr. Hoover takes pains in his statement to placate this sentiment by denying such a purpose. Mr. Castle, the acting Secretary of State, denied it. Mr. Borah, chairman of the Senate Committee on Foreign Affairs, expressed his fears of cancellation. Yet it is recognized even now that at least a partial cancellation of the debts is likely to ensue. Cancellation would cost about eleven billion dollars in principal, on which annual interest at three per cent. comes to about a third of a billion. This is a substantial burden to cast upon the American taxpayer, who at the best, and quite apart from any shifting of the European debt burden, is faced by the prospect of increased taxes for the next few years. Then why should he hail with enthusiasm the slightest step or the least gesture toward cancellation? A year ago he certainly would not have done so. Even a few weeks ago the stock market declined upon the rumour that Germany would seek a moratorium under the provisions of the Young plan. Superficially at least there seems to have been a reversal of American sentiment for which we must go back some fifteen years to find a precedent, in a nation which elected a President who had kept it out of war and then in less than six months followed him unitedly

Second Thoughts

and enthusiastically into war—a war for “such a concert of free people as would make the world itself at last free.”

The reversal of public sentiment, if there has been a genuine reversal, springs from desperation. Into a hopeless economic situation there comes a ray of hope, and we leap to acclaim it. Mr. Keynes, who wrote that very brilliant and entertaining book, *The Economic Consequences of the Peace*, which we all read in 1919 and 1920, may have been right as well as readable. We will brush the dust off it and take another look. It is certainly more impressive now than it used to be. The 1931 edition might appropriately bear a simple preface consisting of one sentence, “Now will you believe me?” At any rate, quantities of people are persuaded that the financial burdens on Germany are too heavy to be borne. It may not matter so much whether Germany cannot pay or whether she can and won't. In neither case is the item, “accounts receivable,” in our balance sheet a quick asset or even a good asset. We must all now recognize the weaknesses inherent in a long-term indemnity credit. It seems rather a pity that the indemnity classes at Paris and Versailles in 1919 did not have Bismarck as their teacher.

II. SECOND THOUGHTS

ANOTHER thing seems plain, even on a month's perspective. The momentary reaction to the President's statement was unwarrantably enthusiastic. People assumed that central Europe was to be rehabilitated by a stroke of the presidential pen. A few days later it became apparent that conditions in Germany could not be relieved by the mere postponement of reparation payments for the next twelve months. Her difficulties proved more and more critical, and the efficacy of the arrangements reached at the seven-Power London Conference a few days ago leave the issue still in doubt. The results of this conference have not been acclaimed with any

American Politics and the Hoover Plan
enthusiasm in the United States. Indeed Wall Street received them gloomily.

A few days after Mr. Hoover's moratorium statement some political critics observed that no stock had risen more rapidly than Mr. Hoover's own. It is certainly safe to say that nothing in the President's political career has ever been more immediately popular than this announcement. But as to long-term popularity the question is a more difficult one. It seems unlikely that any contact of Mr. Hoover's with international affairs can impart the momentum necessary to ensure his re-election unless it is accompanied by a sharp improvement in business in this country. In previous elections, "issues" have had more or less painfully to be fabricated or else there have been practically no issues at all, as in the Coolidge-Davis campaign of 1924. In 1932 the single issue is pretty certain to be prosperity. Men are likely to vote not according to abstract opinions, but according to the state of their dinner pails, their pay envelopes or their dividend cheques. It is unlikely that other topics will very seriously cut athwart the absorbing topic of American prosperity or the want of it. To be sure, this is not very just. Politicians and political parties cannot fairly be blamed for the operation of economic or indeed of any other natural laws. Supply and demand, like gravitation, play nasty tricks, no matter who lives in a white house or sits under a dome. However, there have been Republicans in the past willing to identify their party with prosperity, and it is scarcely to be expected that the Democrats will abstain from all attempts to make political capital out of economic distress. The perennial question of prohibition, which at one time threatened to confound party organizations, is likely to be thrown into the background for another four years. Questions of the tariff, of farm relief, of international relations will doubtless be discussed, but they will be discussed in their relation to stock prices, commodity prices and the indices of unemployment.

The Presidential Election

III. THE PRESIDENTIAL ELECTION : PROGRAMMES AND PERSONALITIES

AS to presidential candidates it seems certain that Mr. Hoover will be the nominee of his party, though there are doubtless many who would prefer another leader. Any party in power is necessarily faced with a logical dilemma if it fails to renominate a President serving his first term. It cannot "point with pride" to its administration unless it is pointing with pride to its chief administrator. When we come to the Democratic party, however, the candidates are unlimited and prediction is as futile as it is diverting. Al Smith's renomination seems now unlikely. His successor in the governorship of New York, Mr. Franklin D. Roosevelt, is going through the process known as "grooming." He has many qualities which make him conspicuously eligible as a candidate. His long years of political service and the prestige of his high office are noteworthy. Of all the Democratic candidates he is perhaps the most often "mentioned." This, however, by no means ensures his nomination. Other men have intellectual claims to the leadership of the Democratic party as good as Mr. Roosevelt's or better. There is, for example, Mr. Owen D. Young, whose eminent contribution in connection with the problem of German reparations is recognized. He is a lawyer and not a politician. He never held a public office, or if he did it has been forgotten. But his capacity to occupy the highest public office is conceded. Nor would his lack of political experience handicap him as severely as it would many men. For years he has been at the head of one of America's greatest corporations and in this position he has been known above everything else as a negotiator and peacemaker. In public affairs he stands pre-eminently for an abandonment of isolation in our politics and of exclusion in our tariff. On business and

American Politics and the Hoover Plan

industrial questions he is a conservative and would be recognized by thoughtful and independent voters as "safe."

Then there is Mr. Newton D. Baker of Cleveland, who was Secretary of War in President Wilson's Cabinet and who is principally known for his espousal of the League of Nations cause. He would also be an opponent of isolation in American politics. He favors repeal of the Eighteenth Amendment and would remit the whole question of policy and enforcement to the States. He is one of the best lawyers in the country but has played no leading part in politics since 1920.

Governor Ritchie of Maryland is principally known to his countrymen as an opponent of the Eighteenth Amendment and an advocate of State rights in so far as the question of prohibition is concerned. He has inveighed against our present tariff on the ground that it is "bringing retaliations from other nations whose trade we ought to have and whose goodwill should be an American asset." He is not a national figure but is the sort of individual often fixed upon in those compromise arrangements which so frequently characterize political choices.

It is safe to say that any Democratic candidate will attempt to make capital out of the Republican policy of protection, and in doing so he will have the support of plenty of economists both in this country and abroad. Undoubtedly if a Democrat were to succeed Mr. Hoover there would be an attempt to change the existing tariff legislation in this country, but it is by no means certain that any sweeping change would result. In the first place, the Democratic majority in Congress might not be large enough to be very effective even if a Democratic President were to be elected by a substantial margin. In the second place, it is unlikely that all Democrats would readily agree upon the terms of a tariff Bill. Tariff making in 1933 or later would probably be very much like tariff making in the past, a scramble of federal legislators on

The Russian Bogey

behalf of their constituents' industries. Although there are plenty of arguments against the theory of protection, it must be conceded that this country can scarcely renounce the policy of a century without internal economic readjustments which would be very disturbing and doubtless very harsh in their effect on many American industries. Tariffs, like armaments, are hard to get rid of, and when economists like Sir George Paish tell us that the world must get immediately on to a free trade basis they are giving us something very like counsels of perfection. Furthermore, if America should be prepared to remit a substantial part of her European indebtedness, then one of the most intelligible popular arguments for free trade would largely vanish.

IV. THE RUSSIAN BOGEY

WHEN one is discussing tariffs the subject of Russia comes naturally to the fore. The Russian economic experiment, which is doubtless as noble in its motive as any moral experiment in this country, has been going on for nearly fourteen years. There has never been a time when American students of political and social affairs were not intensely interested in everything that happens in the former empire of the Czar; but now that the Russian bear is walking more like a man than he has done for a score of years, Americans are becoming increasingly Soviet-conscious. Some of the reasons for this attitude have already been suggested in these pages.* Undoubtedly the popular idea of the Soviet economy is crude and inaccurate in America. The American imagines an unprecedented volume of exports being dumped on these shores by Russia, partly in order to enable her to purchase American-manufactured goods for use at home, but more particularly to disrupt American markets and

* THE ROUND TABLE, No. 83, June 1931, pp. 521 and 522.

American Politics and the Hoover Plan

foment social discontent and political disorder. The sale of Russian commodities abroad is, he reasons, just as truly a liquidation in distress as the sale of stocks in Wall Street by weak marginal holders. The actual amount of dumping by Russia in this country has not been very great up to date. Though there was a good deal of talk about Russian "bear" sales in the Chicago wheat market, they were probably not sufficient to influence prices materially. However, with wagon wheat selling in Kansas at 25 cents a bushel, and the two hundred million bushels of the 1930 crop in the hands of the Federal Farm Board hanging over the market, it is no wonder that the nerves of the American wheat grower are a little jumpy. In this, the year of the largest carry-over in American history, he is more ready to listen to his fears than he is to hunt up reliable statistics—and reliable statistics about Soviet Russia are hard for the average man to come by.

With Russian pulpwood the story is somewhat similar. While it is cheaper than American pulpwood it has not been cheap enough to keep out Canadian and Scandinavian imports. Russian coal has come in but not in great quantities. It is contended with regard to many Russian goods that their production is the result of convict or forced labor and that they may be excluded under an Act of Congress which forbids the importation of the product of such labor. But how to prove the facts about Russian production is another story. Undoubtedly American sentiment will countenance any reasonable effort to protect this country from Soviet dumping. On the other hand, there is nothing which can be done in this country to prevent Russia from regaining her pre-war wheat markets abroad. Indeed the whole wheat situation presents one of the darkest pictures on our economic screen.

Those who fear the threat to our markets from Russian economic methods are also afraid of the effects of Communism upon our institutions, and such fears are apt to become hysterical. Unless the basis of capitalism is

The Russian Bogey

undermined by years of depression we are scarcely likely to scrap the economic system which underlies western civilization. Its admitted defects afford no logical argument for completely discrediting it. On the other hand, many minds have been captivated by the Russian five years plan. Mr. Stuart Chase, one of the most articulate and persuasive of American economists, has said that "the choice of a machine age lies between chaos and planning, with the logic of the latter utterly unescapable." Mr. Mathew Woll, of the American Federation of Labor, has challenged the President to produce for this country a ten-year plan which will be our means of salvation. To this President Hoover replied at Indianapolis that America's "plan" was to take care of a twenty million increase in her population in the next two decades,

to build for them 4,000,000 new and better homes, thousands of new and still more beautiful city buildings, thousands of factories; to increase the capacity of our railways; to add thousands of miles of highways and waterways; to install 25,000,000 electrical horsepower; to grow 20 per cent. more farm products. We plan (he continued) to provide new parks, schools, colleges and churches for this 20,000,000 people. We plan more leisure for men and women and better opportunities for its enjoyment. We not only plan to provide for all the new generation, but we shall, by scientific research and invention, lift the standard of living and security of life to the whole people. We plan to secure a greater diffusion of wealth, a decrease in poverty, and a great reduction in crime. And this plan will be carried out if we just keep on giving the American people a chance. Its impulsive force is in the character and spirit of our people. They have already done a better job for 120,000,000 people than any other nation in all history.

In short the President meets the cry for economic revolution by a few words of glowing praise for the traditional American individualism. It is obvious that the President's prophecy is based upon an assumption regarding our population which may prove to be unwarranted.

Mr. Chase objects that Mr. Hoover's is a plan without planning. He points out that in years of so-called prosperity we may release for investment as much as ten billion

American Politics and the Hoover Plan

dollars which goes anywhere on a hit or miss basis. He pleads for "master planning" which will bring purchasing power into alignment with the growth of the technical arts and give citizens enough income to enable them to buy the goods which other citizens make. This is all very well, but who under the American, or for that matter under the British, political system is to do the planning? Is the master planner or the master planning board to be appointed by the President or elected by manhood suffrage, or are they to be chosen by representatives of industry upon some basis not yet determined? There seem to be two practical difficulties. The first is that the American citizen may refuse to agree to the plan. He may plant more acres (or desiatins) of rye than he is allowed to by the plan, or he may reap too many bushels (or poods) to the acre. He may be guilty of contempt in the event of an order for investment. In that case what is the planner or the planning board going to do about it? Will the excess be confiscated? It will be hard to treat the American farmer like a kulak. Yet an economic system of governmental or quasi-governmental planning would require well-nigh dictatorial political powers which are highly alien to American and British traditions. In the second place, even if we could imagine a national system of planning, scientific in its method, adequate in its scope, and administered with sufficient legal sanction, of what good would it be if there were no correlative system of planning in other countries? If we "planned" our wheat production down to a point at which wheat would fetch what was deemed a satisfactory price in the American market, who would hold in check wheat production in other countries? In the absence of international planning on a world-wide scale it would seem that any American plan would have to be operated behind a tariff wall which would exclude outsiders from our market to an even greater degree than has ever been done in the past, and this is scarcely within the realm of practical economics. It is certainly contrary to the whole school of

Illusions and the Future

anti-protectionist teaching. Until these problems of planning can be solved we shall probably go on under a system in which the suppliers are recurrently tortured by inadequate demands and the demanders recurrently tortured by inadequate supplies. But it is undoubtedly true that the terrific economic hardships of the time are making international co-operation in a thousand ways more and more indispensable. And inevitably so, for only last month two Americans went to Blagovestschensk and back in eight days. No wonder we are worried about Blagovestschensk. If this depression can make us think more internationally, its effects will not be wholly destructive.

V. ILLUSIONS AND THE FUTURE

TO the writer, one of the most tedious things about the depression is the grip which it has given to our moralists. We are now being told that the present evils are a judgment upon us for our sins of greed and avarice and the lust in 1928 and 1929 for getting rich quick. As a matter of fact, while there were doubtless greed, avarice and lust for getting rich quick in those years of prosperity or pseudo-prosperity, it is very doubtful if there is any less to-day. We are more than ever in need of the Gilbertian doctrine that hearts just as pure and fair may beat in a house with seven bathrooms, two radios and a three-car garage as in a hut in the wilderness. What thoughtful people hoped that we had attained in 1928 and 1929 was some degree of stabilized prosperity. Many people, even thoughtful ones, believed we had attained it. Why is there anything illegitimate or ignoble in such an aspiration? People who talked in those years of a "new era" are being ridiculed by students of the economic cycle. Yet the idea of a new era should scarcely seem ridiculous even to-day. Though the old economic laws are still in force, the increasing use and efficiency of machinery, the facility of mass

American Politics and the Hoover Plan

production, the ease and quickness of transportation, the heightened interdependence of all peoples and their heightened demands as consumers, have actually produced changes so drastic as to warrant the term "new era." We shall make our best progress not by ridiculing this conception but by recognizing it and by seeking a technique both in politics and economics adequate to its occasions. Here is a problem great enough to exercise the best mentalities of our world, to exercise indeed such a concert of the best mentalities as will make the world itself at last free.

"In the next ten years," says Mr. Walter Lippmann, "we shall have to liquidate the delusions of the last ten years." Just so. This is the destiny of all the decades. Already the curtain has risen upon the drama of the 'thirties and Disillusionment, that realistic and convincing performer, is playing the leading part. But who are those attractive little girls in the wings, so young, so agile, so beguiling? In the half darkness we strain our eyes to read the programme. Is it possible? Yes they are the Delusion sisters, who even now are destined for a *succès fou*. And jaded as we are we shall acclaim them too for their little day. For history is the story of our new amours.

United States of America.

July 31, 1931.

THE MACMILLAN REPORT

DURING the Deluge, an inventor designed a new and more serviceable kind of umbrella. That is not a true story ; but it is true that on the day on which the reichsmark depreciated for a time to less than two-thirds of its par value, dragging down the pound sterling and threatening the whole structure of the gold standard, the Macmillan Committee on Finance and Industry presented their report* containing proposals for monetary reform, and basing their recommendations on the assumption " that the next phase of monetary policy must consist of a whole-hearted attempt to make the existing international standard work more satisfactorily." This conjunction of circumstances led some commentators to write off the report as an umbrella in a flood, a back number before it was printed. But it was only by an agitated press that the Committee were invited to provide a solution for immediate difficulties. Their terms of reference directed them to report on the permanent relations between finance and industry and not on a critical international situation which developed long after they were appointed.

Their report is, in fact, a remarkable treatise on monetary theory and practice and contains extremely valuable lessons, not merely for Great Britain but for governments and monetary authorities all over the world. Many of the reforms proposed for London might profitably be applied in any other financial centre. The Committee,

* Cmd. 3897.

The Macmillan Report

which was appointed in November 1929, under the chairmanship of Lord Macmillan,

to inquire into banking, finance and credit, paying regard to the factors both internal and international which govern their operation, and to make recommendations calculated to enable these agencies to promote the development of trade and commerce and the employment of labour.

comprised some strange bedfellows—an ex-communist and an ex-Treasury official, a trade unionist and business men, theoretical economists and practical bankers. Yet only one, the Treasury expert, Lord Bradbury, dissents from the main report, though five others make reservations and though certain immediate non-monetary measures, which are discussed in addenda, rouse acute differences of opinion.

I. THE INTERNATIONAL GOLD STANDARD

A BOOK might be written upon the new interpretation that the Committee give to monetary theory. But their concrete proposals are sufficiently numerous and complicated in themselves without any rattling of the dry bones of academic controversy. First come those which concern the monetary system of the world as a whole; and here the preliminary question to be answered is clearly, what should be the purpose, now and in the future, of that system. The Committee have no doubt—and there will be very few to quarrel with them—that at all normal times stability of prices must be the first consideration. But with regard to the immediate situation they utter a stern warning. They write:

We are emphatically of the opinion that, even if a further fall of wholesale prices be avoided, the stabilization at approximately the present level would be a serious disaster for all countries of the world alike; and that the avoidance of such an event should be a prime object of international statesmanship.

The International Gold Standard

The Committee address themselves to the problem of how to bring about such a rise of prices. In a cogent analysis of the causes of the world slump, which forms part of the descriptive section of the Report, much stress is laid on the part played by international capital movements. From 1925-28 they were on an enormous scale, especially from the United States to Europe and to Latin America. Then, with the Wall Street boom, they were suddenly diminished, and when the crash once more released funds for overseas investment, confidence was gone and the financial position of debtor countries was already desperate. Their system of prices, wages and balance of trade had all been built on the foundation of the import of capital and the wealth that it entailed. When the flow suddenly ceased, they were forced to make desperate efforts to adjust their trade balance, by restricting imports and by stimulating exports with the aid of price cuts; sometimes these efforts (as with wheat) were worse than nugatory because prices were driven down in far greater measure than demand would expand. The economy of the creditor nations was equally seriously disturbed by the sudden curtailment of the debtors' purchasing power. All this explains why a revival of international lending plays as large a part as it does in the Committee's proposals for an escape from the slump. The central banks and treasuries of the creditor countries are urged to do all that lies in their power both to remove hindrances to the flotation of foreign loans, and to maintain an abundance of cheap credit in their domestic money markets, available for lending as soon as sound borrowers apply for loans. The Committee admit that "the most difficult task is likely to be to find borrowers of sufficient standing to give confidence to investors," and while some of them "think that in the domestic field it may be necessary to invoke governmental enterprise to break the vicious circle," they would all regard with favour any action which might lead to some form of internationally guaranteed credit or to the creation of an international

The Macmillan Report

investment corporation. The new loans need not be made to the weakest debtor countries, nor indeed abroad at all, provided that they are allowed to have their full effect upon international purchasing power. "It is the simultaneous reluctance of creditor countries *either* to lend *or* to buy which is the cause of the crisis."

All this part of the Report is rather vague and general, as indeed it must be, coming from a national committee with no mandate to advise monetary authorities elsewhere. Assuming that the rise in prices can be brought about—and it is undeniable that, notwithstanding the great improvement in the international situation which may result from the Hoover plan, events since the Report was drafted have gravely diminished the chances of any substantial rise in the near future—the Committee go on to describe the main objective of the central banks acting in co-operation as "to maintain the stability of international prices both over long periods and over short periods." One asks at once, is this feasible within the bounds of the gold standard? That the general maintenance of that standard and the development of an international monetary system depend essentially upon a reversal of present tendencies is plainly recognised. "In two years the creditor countries have increased their proportion of the monetary gold in the world from two-thirds to three-quarters. . . . It is unlikely that the debtor countries can continue much longer to square their international position by parting with gold at the rate of £70,000,000 a year, as they have been forced to do in the last two years."

Even if the necessary revival of international lending takes place and prices rise—indeed even if that were not to come about—there would remain the problem of securing stability, that is to say, of basing upon the available gold resources a sufficient volume of credit to maintain prices at the higher level that is desired. The inadequacy, under present circumstances, of the supply of new gold

The International Gold Standard

and the evils resulting from the mal-distribution of existing stocks are fully dealt with in the descriptive chapters of the Report. The remedies for these troubles are to be found only through international co-operation, and little or nothing can be done without the assent of the present hoarders, but the Committee endorse the recommendation of the Gold Delegation of the Financial Committee of the League of Nations, and express a hope that central banks will in future abandon the circulation of gold coins, discuss together the relaxation (or in other circumstances possibly the tightening up) of reserve requirements, be permitted to reckon balances with central banks of other gold standard countries, or with the Bank for International Settlements, as part of their legal reserves, and not be unduly limited, as the Bank of France is now, in their power to expand their deposits otherwise than against a corresponding increase in their holdings of gold or its equivalent. There is no one way of making the world's gold supply sufficient for its monetary needs. Various adaptations of the gold standard may be necessary before success is achieved, but at least it is clear that under a rational system there would be quite enough gold to secure both safety and stability.

In future, if we are to be saved from the waste and misery attendant upon long-period variations in international prices, and from the disorders wrought by the business cycle, the domestic monetary systems of the world must severally be based upon the realisation that, as gold has disappeared from circulation, the contingency of what the Victorian theorists called an "internal drain" has been banished as a factor to which gold reserves should be related, leaving only the possibility of an "external drain." The Committee point out—and it is not the least of their services to the public—that under present circumstances it is altogether inappropriate to maintain some standard proportion between gold reserves and the note issue; and that "the sole use of a gold reserve to-day is, therefore, to

The Macmillan Report

enable a country to meet deficits in its international balance of payments, until the appropriate measures can be taken to bring it again to equilibrium." One might add another use, which the Committee implicitly recognise, though they do not name; that is, to give the public, it may be without justification, an assurance of the stability of the monetary system and so to prevent sudden panicky flights from the currency. That is not the only change in our traditional ideas of monetary affairs which the Committee would have us make; it is as well that the imprimatur of a blue-book should be given to the once revolutionary proposition, that "the sense in which the gold standard can be said to be automatic is very limited; it is automatic only as an indicator of the need for action and of the end to be achieved." In other words, we already possess, in some measure, a managed currency.

II. A MANAGED CURRENCY

THE aim of the Committee's recommendations concerning the domestic monetary system is, in brief, to provide a more powerful, more flexible and more effective instrument for managing the currency, within the limits of an international system, itself manipulating the currency and credit of the world according to a definite preconceived plan. The Committee emphatically reject proposals both for devaluating the pound sterling and for abandoning the gold standard altogether. Great Britain's prosperity turns upon her relations with an international system of finance and trade; no attempt of hers at isolation could defend her from the repercussions of instability elsewhere. The Committee add:

If, therefore, this country were to cut adrift from the international system with the object of setting up a local standard with a sole regard to our domestic situation, we should be abandoning the larger problem—the solution of which is certainly necessary to a satis-

A Managed Currency

factory solution of the purely domestic problem—just at the moment, maybe, when, if we were able to look a little further forward, the beginnings of general progress would be becoming visible.

Within the limits set by the gold standard, and after the present extreme depression of prices has been deliberately corrected, "the endeavour of domestic management" is described as "to promote the stability of output and of employment at a high level by influencing the regular flow of savings into investment at home and abroad so far as is compatible with the international situation." It is proposals such as that which make Lord Bradbury's flesh creep. "Honesty," he writes, "even if stupid, is a better foundation for credit than the most adroit finesse." But the majority of the Committee consider that the present acute industrial and financial *malaise*, and the prospect of a growing shortage of gold, together provide more than sufficient justification for an experiment in managing the currency system.

The managing authority should be the Bank of England—"independent of political influences, yet functioning solely in the public interest . . . entrenched in the centre of the struggle for profit and with access to the arcana of the market, yet itself aloof and untinged by the motives of private gain." Where is the attack on the Bank of England that the Labour press prophesied? Save for a reservation by the retired communist, Mr. Walton Newbold, it is almost entirely confined to lukewarm criticism of the Bank's failure to expand credit sufficiently between 1927 and 1929.

But the Bank cannot act alone; it requires the loyal co-operation of the joint-stock banks, the discount houses and the private money market, and there is little doubt that it will be able to rely on them in the future as in the past. Indeed, the illuminating description, in one of the early chapters, of the working of the City of London brings out the loyalty that already exists and that has

The Macmillan Report

been one of the chief instruments whereby the Bank of England has maintained far greater control over the credit structure than has the Federal Reserve Board in America. It is significant that, whenever the Committee ask for the publication of such statistics as the volume of acceptances, or of foreign balances and foreign liquid assets held in sterling, they propose that they should be furnished in confidence to the Bank of England, which would publish aggregates only. This trust would be lost were the independence of the Bank from political influence to disappear, and we shall do well to heed Lord Bradbury's warning that the grant of great and arbitrary powers of currency management to the Bank may sooner or later involve its subordination to Parliament. It is not too much to say that if that were to come about the whole fabric of the system that the Committee envisage would be destroyed.

The Committee recommend such changes in the legal restrictions upon the Bank as would provide it with a far more flexible instrument of management than it possesses at the moment. The changes relate mainly to the gold reserve requirements. At present there is a fixed fiduciary issue of currency of £260,000,000; against the remainder (commonly about £150,000,000) the Bank must hold pound for pound in gold, the Treasury taking the profits on the securities held against the £260,000,000 fiduciary issue. So much for the Issue Department. The amount of notes not in circulation is carried down into the account of the Banking Department, where they form its reserve and in effect measure "the maximum amount of gold which the Bank could part with in the absence of a change in the volume of notes in circulation, unless the powers of extending the fiduciary issue are used." The Committee first of all recommend that the two departments should be amalgamated, and that the Treasury should receive the profits not on the securities held against the fiduciary issue, whatever it may be, but on securities varying in amount

A Managed Currency

according to the excess of the Bank's notes and deposits over its gold and silver holdings. The object the Committee had in mind was that the Bank should not be deflected in its policy, as it might conceivably be now, by the fact that any increase in the fiduciary issue would reduce its profits and increase those of the Government, and in fact should be guarded against large variations in profits which might arise out of fluctuations, due to considerations of public policy, in the respective proportions of its gold and its earning assets. It is, of course, true that the Treasury's profits, instead of being fixed, would fluctuate in future. But in this matter it is obviously more important to protect the Bank than the Government.

That, however, is only an incidental proposal. The Committee regard the principle of the fixed fiduciary issue as antique because it falsely relates the immobile gold reserve to the amount of the active note circulation, and serves to "forbid the Bank of England to use by far the greater part of its gold for the only purpose for which it is held or could be used." What is the sense in having a gold reserve which you are not prepared under any circumstances to part with? The Bank of France may know the answer, but the Macmillan Committee do not. So they recommend that there should be a fixed maximum note circulation (they suggest £400,000,000) and a fixed minimum gold reserve of, say, £75,000,000, both variable temporarily under exceptional circumstances. It is not, however, suggested that the Bank would ever, except in war time or equal emergency, allow its gold reserve to fall to anything like £75,000,000. Indeed an essential part of the Committee's proposals is that as soon as possible the Bank's reserve of gold and foreign exchange should be actually enlarged. These proposals taken as a whole are far more rational than the present system, but it follows, of course, that the greater freedom granted to the Bank of England involves greater responsibilities. There is danger that restriction would not be undertaken soon enough, that therefore the

The Macmillan Report

conditions necessitating it would be prolonged, and that the Bank might find itself deprived of its mobilisable gold reserve while yet the international balance had not been improved. That risk cannot be obviated, but it is worth taking when we consider the absurdity of a system under which the power of the Bank to make up what may be a passing deficit in the balance of international payments, including short-term loans, is made to depend upon a fixed and somewhat arbitrary maximum for the internal note circulation. The circumstances justify the experiment, though again a condition must be that the Bank of England continues to stand outside political influence.

The necessary complement of the grant of these new liberties to the Bank of England is that it should be given greater strength. After an analysis of our international financial position, based on certain figures of short-term obligations which were badly needed by economists, but which have never been published before, and which are even yet incomplete, the Committee conclude "that the Bank of England's liquid assets ought to be increased at the first opportunity to a substantially higher figure, and maintained thereafter at this higher figure as the normal." At the same time, they think "that in the modern world, having regard to the scale of international operations and the size of other money markets, the Bank of England should feel itself free to see, without anxiety, very large fluctuations in its own liquid assets between their minimum and their maximum."

The Committee have several suggestions for providing the Bank with sufficient assets to enable it to strengthen its position in the way indicated. They propose, first, that the Bank should increase its capital. Second, in order to increase the deposits of the joint-stock banks with the Bank of England, the Committee further recommend that the London clearing banks should aim at maintaining a daily average cash ratio of not less than 10 per cent., which would be rather higher than at present; they do not, how-

The Balance of Trade

ever, propose that this should be a legal obligation upon the banks. This would increase bankers' deposits with the Bank of England by something under £20,000,000. This proposal is linked with one for the abolition by the banks of the practice of "window-dressing"—that is to say, making a special display of strength on the days on which they publish their accounts. The Committee suggest that, if the Bank of England were to maintain reserves of notes at various centres about the country, the joint-stock banks could safely turn, say, £40,000,000 of their present cash reserves into balances at the Bank of England. In return for a relaxation of the traditional secrecy as to its own policy and actions, the Committee recommend that the Bank of England should be furnished with certain hitherto unavailable statistics, most of them to be provided by the banks and finance houses, but some by public departments, especially the Board of Trade, whose vagueness regarding the balance of payments and dilatoriness with the census of production have long been the despair of economic workers. A particularly interesting chapter contains proposals for closer co-operation between the capital market and industry, along the lines of the present relations between overseas borrowers and the merchant banking houses which sponsor their issues.

III. THE BALANCE OF TRADE

VALUABLE as many of these proposals are, the efficacy of every single one of them in restoring and maintaining trade prosperity depends upon an improvement of Great Britain's international commercial position. As long as the demands upon us so far exceed the payments we receive that our gold resources are in constant danger of depletion, it would be idle for us to attempt to restore internal prosperity by an expansion of credit, with its attendant reactions on the balance of trade, and equally

The Macmillan Report

idle to encourage fresh overseas lending. There are two conditions which must be fulfilled before we can expect a return of foreign balances and a relief from the pressure upon our gold reserves; the first is confidence in the security of our national finances and the second is an improvement in our international trading position. To the problems presented by the latter condition, various members of the Committee address themselves in addenda to the report. Half a dozen, who include Mr. Keynes, Mr. McKenna and Mr. Bevin, while "pinning all their hopes" on a recovery of world prices as an alternative to wage reductions, support the control of imports either by a tariff, with compensation for exports, or by import boards, and the launching of big government schemes of capital development. Professor Gregory trenchantly attacks these proposals, supporting a reduction of wages and salaries, not necessarily in the export industries, but in "the ancillary and sheltered trades whose wage rates and standards have been maintained at the expense of the standard in industries less able to protect themselves." The policy of protection is dismissed by Lord Bradbury as "merely enlarging the list of sheltered trades at the expense of the export trades." Mr. Brand, postulating that, as a condition not merely of immediate recovery, but likewise of the satisfactory management of the currency in future years, the surplus on our balance of trade must be increased, examines in order the alternatives of greater efficiency, wage reductions and tariffs. He concludes that "there are still very big opportunities to reduce costs by greater efficiency in the widest sense of modernising both production and selling and limiting harmful competition"; that reductions of salaries and wages (particularly in the sheltered industries) are necessary, in view of the probable tendency of costs to fall elsewhere even while prices are rising; and that the strengthening of our balance of trade by means of a tariff, while it may become necessary if the nation refuses to put its house in order, is not likely to be as satisfactory for

The Balance of Trade

our export industries as a reduction of costs under the two other heads.

While we are not prepared to pronounce here upon the merits of these various arguments, we believe that some such eclectic view is the right one. There is no absolute and universal right or wrong about tariffs or wage adjustments. But for those who are inclined to favour import duties, we would call attention to another passage in which the Committee declare their belief "that the first measure towards the restoration of the international price level must necessarily be taken on the initiative of the creditor countries, and that it must consist partly in a greater willingness to buy and partly in a greater willingness to lend." One of the conditions of recovery is a reduction of tariffs in creditor countries, and if Great Britain is to move on the opposite course she must beware lest other countries imitate her. We are in a peculiarly difficult position. As a great creditor country we cannot escape the obligations that are laid upon us by any attempt to hoist the world from the slough that it is in, while at the same time the weakness of our international trading and financial position forbids us to take action for the relief of debtors. Thus the immediate and perhaps most important lessons of the Macmillan Report are addressed to those great creditor countries who are far more secure than ourselves.

But meanwhile we cannot escape the urgent task of setting our own house in order. Those who looked to the Macmillan Committee to provide a ready-made solution for our industrial problem and a happy issue out of all our economic afflictions were doomed to disappointment, because no reform of the monetary system, no amendment of the relations between the banks and industry, can cure ills which go far deeper. A man in the throes of pneumonia may well seek advice regarding the clothes he should wear in order to render himself less liable to catch cold in the future, but he would not expect the prescription to cure his disease or even to prevent its recurrence if he

The Macmillan Report

goes on inhabiting a bog. It is not a condemnation of the Macmillan Report to say that, until sacrifices are made all round to meet the desperate situation we are in at the moment, its recommendations will help little to restore our economic health. The Committee were not asked to provide a means of escape from the immediate economic crisis. Fortunately we do not need an expert committee to tell us what, in general, we must do. Our budget is unbalanced and our industrial costs are too high. Those are facts beyond question, and they must be turned into the past tense if our monetary system, even amended as the Committee urge, is to withstand the strain that our improvident policies have placed upon it.

DOUBTS AND DIFFICULTIES IN INDIA

TO describe, as we did in our last article from India, the logical series of events which led direct from Lord Reading's speech at the Round Table Conference on January 5 to the conclusion of the Irwin-Gandhi agreement and its ratification by the Congress at Karachi on March 30, was a comparatively simple task. The tale to be told was important, straightforward and dramatic, and the period under examination constituted a natural historical whole, with a clean beginning and ending; the ending, moreover, could be interpreted as a happy one. But on this occasion the problem before us is very different; indeed, to construct a coherent story out of the multitude of discordant and inconclusive occurrences which have taken place here during the last three and a half months is impossible.* All we can pretend to do is to direct the reader's attention to the outstanding changes, tendencies and problems which have arisen, to indicate their probable significance—which is in the majority of instances unpleasant—and to postpone any attempt to gather up the loose threads and knit them into a harmonious narrative unit until three months hence, when our next article will be written in circumstances which, it is to be hoped, will be less confused and ambiguous.

I. THE SECOND ROUND TABLE CONFERENCE

TO start with, the great constitutional conundrum, which for years has dominated the whole intellectual life of India, where political disputations probably absorb more of the mental energies of the educated classes than anywhere

* This article is dated July 26.

Doubts and Difficulties in India

else in the world, appears to the general public to have been brought little if at all nearer solution since the Round Table Conference was adjourned over six months ago. During the first half of that period, that is to say, between the Prime Minister's speech to the Conference on January 19 and the end of Lord Irwin's Viceroyalty in April, the negotiations between the Government of India and the Congress diverted attention from the main issue, since for the time being everything was subordinated to the enthralling question whether the working committee would really be willing or able to discontinue the civil disobedience movement and co-operate with the authorities in restoring the country to normal conditions. But as soon as the agreement was put into effect, and the excitement engendered by the release of the political prisoners had subsided, the constitutional problem resumed its normal place in the popular mind as the most urgent and interesting matter of the moment ; and the seemingly complete failure, during the next three months, of the British and Indian Governments and the Indian political leaders to devise, between them, any means of settling the many extremely complex questions which were left unsolved in January, has caused widespread irritation and disillusionment, and destroyed much of that remarkable " atmosphere " which was perhaps the original Conference's most valuable product.

To every intelligent observer of the ordinary movements of Indian political thought, it was clear that a psychological reaction such as this, which may have serious consequences, would occur unless arrangements could be made, within at the latest three or four months of the adjournment of the Conference, for its resumption at a definite date, and with a known programme and personnel. For an enthusiastic emotional response to any big and hopeful change of policy is as difficult to maintain here as it is easy to evoke ; and so fervent is the desire of the majority of educated Indians that the ideal of a united self-governing India should be realised with the minimum of delay, that they

The Second Round Table Conference

find it difficult to watch without impatience the cumbersome mechanism whereby the change is gradually being effected, or to refrain from blaming the operator for the innumerable bits of grit which necessarily get into the works and prevent their functioning smoothly. Nevertheless, although the importance of this emotional factor was well understood, so many practical difficulties have stood in the way of a speedy resumption of the constitutional negotiations that serious delay has been unavoidable.

The first setback originated in England, within a few days of the conclusion of the Irwin-Gandhi agreement. On March 11 the news was received here that Mr. Baldwin, at a meeting of the India Committee of the Conservative party in the House of Commons, had declared that the Conservatives would not be represented at the contemplated sittings of the Round Table Conference in India. What exactly this announcement should have been interpreted to mean was revealed two days later, when the Conservative leader made it clear, during the debate on Indian affairs in Parliament, that much of the alarm which his statement had immediately aroused was unjustified. His party was not in fact embarking on a policy of non-co-operation, and thereby repudiating the statement of policy he had made on its behalf on January 26; all that they had decided was that the project conceived at the end of the Conference for resuming its sittings in India during the summer was unsound, and that if a British delegation were indeed to go to India, it should not be an all-party delegation, but consist of representatives of the Government only. The Cabinet, as is known, was forced to the conclusion that no useful purpose would be served by despatching a British delegation to India at all, and that such discussions as were required out here before the Conference was resumed in London must be held between members of the Government of India and Indian political leaders. Some confusion was undoubtedly caused by this change of plan, but it did not amount to very much nor last for long; and the reasons

Doubts and Difficulties in India

for the difficulties that have subsequently arisen must be sought in this country only.

At the outset, a certain amount of delay was inevitable owing to the change of Viceroy; for Lord Willingdon, despite his experience of Indian affairs, naturally required, before making any important decisions, to spend a few weeks in examining the new situation which had developed since he left the country in 1924, and in acquainting himself with important officials and political leaders. But before the month of April was out it was more than ever obvious that the greatest and most enduring impediment to progress was the communal problem, and that while there remained any chance of its being settled on Indian soil, within the six weeks or so that might legitimately be allotted to the purpose, it would be undesirable to make precise arrangements for resuming the Conference in London, where the Hindu-Moslem differences had defied all attempts at solution. For it is generally agreed that a settlement between the Hindu leaders and the representatives of the Moslems, Sikhs, and other minority communities should, if possible, be spontaneously effected in India rather than imposed from without; from the British point of view, this policy is obviously the best, and it has the whole-hearted support of every self-respecting Indian nationalist, who would naturally consider it humiliating that in these days the domestic difficulties of his compatriots should still have to be settled by aliens. Moreover, Mr. Gandhi, as usual in the forefront of nationalist opinion, had publicly stated, not long after his release from gaol, that it would be futile for the Congress to be represented at the second Conference unless the communal disputes had been composed beforehand; and since one of the chief merits of the Irwin-Gandhi agreement had been that it made possible the participation of the most powerful political organisation in this country in the forthcoming constitutional negotiations, it was obviously necessary that this potential asset should not be

The Moslems and the Princes

jeopardised by any precipitate action on the part of the Government.

II. THE MOSLEMS AND THE PRINCES

AS time passed without any progress being achieved it became clear that some constructive effort was required if the authorities were not to be blamed for inactivity ; and on May 20 it was officially announced that, if suitable arrangements could be made in India, the meetings of the Federal Structure Sub-Committee would be resumed in London on June 29. The moment chosen seemed not inauspicious ; for the discussions between the rival schools of Moslem political thought in Bhopal earlier in the month had not ended in deadlock, and Mr. Gandhi's visit to Simla during the previous week had been considered tolerably successful. However, during the next fortnight or so a fresh crop of difficulties sprouted, and it was soon evident that there was no chance of a meeting of the Federal Structure Sub-Committee before September at the earliest. A preliminary obstacle was that many of the prospective delegates indicated that they would find it very difficult, for personal reasons, to leave India at such short notice. But much more serious than this was the fact that prospects of a communal settlement, which had seemed, for a moment, not absolutely unattainable, were now fast receding. The Sikhs had already shown indications of resenting Mr. Gandhi's suggestion that they and the Moslems must reach mutual agreement on the Punjab question before the Congress could let them fill in the " blank cheque " which they had been promised some months previously, and the Moslems were even more suspicious. As far back as May 18 a meeting of the Calcutta Moslem Youth Conference had reaffirmed the decision, made during January by the All-India Moslem Conference in Delhi, that separate electorates for minorities should be retained ; and thenceforward signs multiplied that the Nationalist Moslem

Doubts and Difficulties in India

group, which has the support of the Congress party in favouring joint electorates, was losing ground not only in Bengal, but in other parts of the country. On June 1 its seemingly pro-Hindu policy was strongly denounced at the All-India Moslem Volunteers Conference in Bombay, and two other important meetings in the city during the next fortnight, namely the All-India Khilafat Conference and the All-India Moslem League Conference, adopted a similar attitude. And when on June 22 the so-called Bhopal conversations between representatives of the Nationalist Moslem group and their more conventional co-religionists, which had been transferred, after some embarrassing postponements, to Simla, completely broke down, all hope of the Hindu-Moslem question being settled on Indian soil during the next few months had to be abandoned. Moreover, towards the end of May there were indications of trouble of an entirely different kind. Ever since the return of the Princes and their representatives from London, it had been suggested that objections to the idea of an all-India federation were likely to be raised in certain quarters, and for a week or two after June 12, when the Maharajah of Patiala actually published his remarkable denunciation of the scheme formulated at the Conference, it was difficult to estimate how far the opposition would extend. In point of fact, the Maharajah's action seems to have had the contrary effect to what he presumably desired, for at the important series of meetings held in Bombay between June 28 and July 4 the support which the opponents of the federal scheme secured from the Princes and ministers of the States who were present was surprisingly small, and opinion, on the whole, definitely consolidated in favour of the policy originally adopted at the Conference. But while so crucial an issue remained in suspense, to arrange a resumption of the sittings of the Federal Structure Sub-Committee was obviously inexpedient if not impossible.

Until the first week in July, therefore, the progress made

The Moslems and the Princes

towards the solution of India's constitutional difficulties appeared to be negligible, and great uncertainty and disillusion prevailed. But during the last fortnight the issues have clarified, at least in so far as the Princes and the Moslems are concerned. As regards the former, the great majority now appear to be effectively committed to the policy outlined at the first Round Table Conference, and although the detailed arrangements for an all-India federation will doubtless take some time to put into effect, and may not be approved by certain rulers, the major Princes with few exceptions have evidently decided that their future interests will be served best if they come into direct constitutional relations with British India now, rather than remaining in a state of autocratic isolation which the tendencies of the modern world may render increasingly precarious. To enter a political system which is bound to be predominantly democratic in tone is, for them, a step by no means unattended with danger, as the practically communistic programme adopted by the Indian States Peoples Conference in Bombay during the second week in June clearly showed; but on the other hand it may be expected to prove popular, owing to its patriotic flavour, and will probably secure for the Princes greater control over the affairs of their country than they could otherwise obtain, and thus enable them to apply the brake to any reformist movements, either in their own territories or in British India, which they consider precipitate or undesirable, and incidentally also to escape much of the somewhat irksome control of the Foreign and Political Department.

Doubts as to how far the Princes were really likely to agree to a federal constitution having therefore been practically set at rest, it proved possible, six days ago, for the Government of India to publish a final list of prospective members of the reconstituted Federal Structure Sub-Committee, and it may now be taken as settled that this body will resume its sittings in London during the first week in September. A point which has evoked some

Doubts and Difficulties in India

comment is that no members of the Nationalist Moslem group have been invited to join it; and if the Minorities Sub-Committee is found, when the invitations are issued a few days hence, to contain no representatives of this school of thought either, it will be held to prove the truth of the rumours now current, that representatives of the All-India Moslem League recently announced to the Government their refusal to participate at all if their Nationalist co-religionists were asked to attend the Conference.* In any case it is certainly a fact that conventional Moslem opinion has hardened still further since the latter part of June. The speeches made at the meeting of the Nationalist Moslem Conference at Faridpur on the 27th and 28th were distinctly less favourable to the ordinary Congress point of view than had been expected, and a strongly communal attitude was adopted by the All-Bengal Moslem Conference at Dacca on July 11. Moreover, the fact that the Congress Working Committee, after strenuous attempts in Bombay between July 9 and 18 to bring round Mr. Shaukat Ali and other representatives of the All-India Moslem League to its own point of view, has now definitely plumped for joint electorates, is generally considered to show that Mr. Gandhi and his followers have abandoned all hope of effecting any agreement in the near future with that large section of Moslems whom they consider to be intransigent communalists. On the other hand, some satisfaction can be derived from the fact that the working committee, at its previous sessions in Bombay between June 8 and 11, enabled Mr. Gandhi to withdraw from the position he had previously adopted on the Hindu-Moslem question, and authorised him to proceed to London, "other conditions being favourable," even if no communal settlement were achieved. What exactly the qualifying clause may prove to mean remains at the moment obscure.

The discussions in Simla during the course of the last

* The list of members of the Minorities Sub-Committee, published on August 5, includes one Nationalist Moslem, Sir Saiyid Ali Imam.

The Moslems and the Princes

week were by no means easy, but on the other hand the rupture that was at one time feared did not occur, and Mr. Gandhi's name is among those which have been added to the list of people invited to serve on the Federal Structure Sub-Committee. On the whole it seems probable that, whether the Congress is really in earnest about the Conference or not, the Mahatma will attend it, if only for the sound strategic reason that Simla or Delhi would be a far less effective place in which to stage a final breakdown than London. In other respects, too, the prospects for the Conference now seem somewhat brighter. The report of the special committee appointed to work out the practical details of the reforms proposed at the Conference for the North-West Frontier Province has just been published, and seems to have been well received, and two experts have recently been deputed to investigate the probable financial consequences of separating Sind from the Bombay Presidency. The Indian Sandhurst Committee, which was set up at the suggestion of the Defence Sub-Committee of the Conference, completed its investigations some weeks ago, and its recommendations will be available during the discussions in London in the autumn. In addition, as was indicated by the *communiqué* issued by the Reforms office on June 12, a great deal of useful spade-work has been undertaken by the Government of India in other directions. Preliminary investigations into the possibility of establishing Orissa as a separate province are in progress, and a committee is shortly to be appointed to enquire into the detailed implications of this problem ; government departments have been busy classifying administrative subjects under the headings of federal, central, and provincial ; and a mass of statistical data has been accumulated on matters of finance. Thus, by the time the Conference resumes its sittings, it will at least have plenty of material to work upon, and unless some major political difficulty is encountered, its conclusions should be much more definite than those provisionally reached in January.

Doubts and Difficulties in India

III. AGRARIAN DISCONTENT

WERE it not for the fact that, when this article is read, the constitutional aspect of Indian affairs will probably be engaging public attention in England, we would have devoted far more space to discussing the many other topics which have been troubling thoughtful observers here, and which will now have to be treated somewhat perfunctorily. To the resident in this country, by far the most conspicuous and unnerving phenomenon of the last three months has been the increasing difficulty of the administrative problems with which the Government has been confronted, and the multiplicity of their immediate causes. Some are directly attributable to the working of the detailed provisions of the Irwin-Gandhi agreement, others to agrarian disturbances, or communal tension, or labour disputes. In Burma, what was thought last December to be a brief and unimportant rebellion has proved extraordinarily intractable, and assumed such dimensions as to bring about the collapse of the ordinary administrative machine in at least two districts; while the activities of terrorists throughout the country, despite the success of the police in effecting arrests, have become increasingly frequent and alarming. Those who endeavour to look below the surface for the ultimate origin of these various disorders will probably trace them to two sources, the one socio-political, and the other economic. Because the civil disobedience movement last year, and the confusion which it brought in its wake, were no more than symptoms of an increasing malaise from which India has been suffering for years as a result of the impact of Western ideas upon a static Oriental civilisation, and because it happened to coincide with the onset of an unprecedented economic depression which is still increasing in severity, it is impossible to contemplate the future without foreboding.

Agrarian Discontent

To turn now to details, Mr. Gandhi has undoubtedly been sincere in his endeavours to implement the terms of the agreement, but the same cannot be said of many of his followers, and the fact that the truce still holds is about the best that can be said of it. As was to be expected, the release during a period of about a month of thousands of political prisoners throughout the country, many of them in a state of great mental excitement, caused considerable anxiety and confusion, and incidentally led to serious dissensions within the Congress ranks in many places, particularly the Punjab and Bengal. At the outset a tendency was apparent among the younger and more exuberant Congressmen, which was undoubtedly encouraged by some of the leaders, to treat the agreement as no more than a convenient means whereby the Congress might regain its strength and prepare for further strife; and the district authorities were much exercised as to how far they could allow these activities to develop without incurring responsibility for the disturbances to which they were liable to give rise. During May and June the situation was particularly difficult; speeches were made throughout the country, frequently by responsible Congress leaders, on the necessity for maintaining the "war mentality," the police were boycotted and obstructed, as for instance at Manbhum and Bhagalpur in Bihar during May; and attempts were made to set up parallel courts in many places, the most conspicuous being at Midnapore in Bengal. From practically every province reports were received of a growing difficulty in securing routine information, and of the decline in the morale of minor officials and government servants owing to the inactivity of the authorities. The criminal statistics were also becoming very disquieting, the number of reported cases of dacoity in Bengal, for example, being far higher during the first five months of 1931 than the average for whole years in the past.

But perhaps the most sinister feature of the whole business has been the agrarian agitation fostered by the

Doubts and Difficulties in India

Congress in various parts of the country. The plight of the peasantry at present is very distressing, for although the harvests of 1930 were fairly good, the extraordinary fall in commodity prices rendered a great deal of the produce unsaleable, and in consequence many of the cultivators have no money with which to pay their rents ; and in the United Provinces, which, with Gujerat, has been the most conspicuous centre for disturbance, the situation is particularly serious, since for several seasons prior to 1930 the rainfall was markedly defective. But that the Congress should exploit these rural difficulties for political purposes is deplorable, even though to some degree they may be inspired by sympathy and altruism. For the perils of such activities are impossible to exaggerate. About 90 per cent. of the inhabitants of India are poverty-stricken peasants, not quite so ignorant and superstitious now as they were ten years ago ; the amount of uncultivated land available for agricultural purposes, despite the development of irrigation, is extremely limited ; and the total population of the country has increased by no less than 36 millions in the last ten years, the increase having been greatest in the rural districts. The facts speak for themselves ; the traditional apathetic contentment of the ryot may strike the reformer as deplorable, but once it is destroyed a catastrophe would appear to be inevitable. And if the present acute economic depression is accentuated by a failure of the monsoon, as seems by no means unlikely, since the rainfall for the month of June was 23 per cent. in defect throughout the whole of India, the consequences, even without the assistance of the Congress, would be extremely serious. Already there have been sporadic agrarian disorders in many parts of the country. A zemindar and his assistants were murdered near Allahabad during the second week of June, chaukidars* and police officials have been assaulted, and alarming demonstrations have been

* Watchmen.

frequent; and in the circumstances there seems every probability that the trouble will extend.

IV. TERRORISM

SO far as communal riots are concerned, their number, despite the continued political tension between the two major communities, has been substantially less than during the first three months of the year, and the big religious festivals have passed off comparatively peacefully. The most serious outbreak took place not in British India, but in Kashmir, where nine people were killed and many injured on July 13, and communal disturbances occurred in two other States, namely Pudukotta and Janagadh, about a week later. The only noteworthy clash in British India was a minor riot in Cawnpore on May 30, during which the police had to fire and two people were killed. The number of terrorist outrages, however, has been very great, and that this has been so, despite the successful *coups* brought off by the police in the United Provinces and the Punjab, the strict application of the special ordinances in Bengal and Burma, and the incarceration of several presumed terrorists in connection with the Delhi conspiracy case, clearly shows how widespread the tendency to violence has now become. In the last week of April bombs were thrown at Europeans sitting in the pavilion of the Royal Calcutta Golf Club. During May, an alarming plot was discovered in Chittagong, electrically-wired canisters containing powerful explosive having been found near several important buildings; a plan for murdering Europeans was believed to have reached an advanced stage in the Bakarganj district of Bengal; bombs were thrown at Mainpuri in the United Provinces and near Tippera in Bengal; a constable was shot dead and two police officials injured in a train near Suchetgarh in the Punjab; and an explosion occurred in the Sanatan Dharam school at Cawnpore. Early in June

Doubts and Difficulties in India

Cawnpore was the scene of a couple of further outrages, two constables having been shot when attempting to effect arrests, and a bomb having gone off in the railway station. In the same month bombs were flung and shots discharged at a Moslem cloth dealer in Lucknow, and a policeman was killed by a bomb in Patna. During July there was yet another murderous assault at Cawnpore, and within the last week there has been the deplorable revolver attack on the acting Governor of Bombay, in a college at Poona, and the even more deplorable demonstration made against him by the students afterwards, followed by the stabbing of two British officers in a first-class compartment of the Bombay express.* In some quarters there has been a tendency to attribute most of these outrages to the extraordinary emotional reaction evoked throughout the country by the execution of the notorious terrorist Bhagat Singh in March ; but that this is not the true explanation, and that the real causes lie deeper, is indicated by the fact that despite the attempts of the extremist press to belaud Dinesh Gupta, the murderer of Colonel Simpson, and Hari Kishen, the assailant of the Governor of the Punjab, as national heroes, no particular excitement occurred when they went to the scaffold.

V. FINANCE

WE may conclude this article with a paragraph on the lugubrious subject of finance. For the last eighteen months or more the revenues of the central government have shown an extensive and persistent decline ; receipts from income tax have fallen off sharply ; customs during the second three months of the year, despite the increase in the duties, have yielded only Rs. 10,42 lakhs as against Rs. 12,33 lakhs during the corresponding period of 1930 ; and the gross earnings of State-owned railways during

* Since this article was written, Mr. Garlick, a Calcutta Sessions Judge, has been shot dead by a young Bengali in his court.

Finance

April, May and June this year are estimated at Rs. 22,19 lakhs, as compared with Rs. 25,34 lakhs in 1930 and Rs. 26,04 lakhs in 1929. Most of the provincial governments are in a similar plight, and numerous committees have now been set up to suggest means of reducing expenditure. The general effect of this depression and uncertainty on the propertied classes has been extremely unsettling, and particularly so on the British residents in India. Their prevalent attitude is one of helpless and cynical pessimism. The commercial community is in grave financial straits; profits as a rule have steadily declined since the autumn of 1929, and as yet there seems no sign of improvement. Moreover, numbers of British merchants are convinced that many of their troubles are directly attributable to the civil disobedience movement, which, they believe, need never have occurred but for the weakness of the Government; and they have grave apprehensions of the exercise of commercial discrimination against them under the new constitution. As regards Europeans in government employ, the retrenchment campaign, coming on top of the decision that the ultimate responsibility for the administration of this country shall henceforward be transferred to Indians, has caused very serious unrest. Many have good reason to doubt the safety of their jobs or their prospects; and those whose position is more secure, but who are still some way from earning their pensions, are asking themselves whether existence in India will be tolerable for an Englishman when he is exposed to the irritations and perhaps injustices which he may expect at the hands of nationalists rejoicing in the exercise of their new powers.

India. July 26, 1931.

NOTE: On August 13 the Congress announced that, as the Government of India refused arbitration upon alleged breaches of the Delhi Pact by provincial governments, Congress would not be represented at the Round Table Conference, and Mr. Gandhi cancelled his passage. The Congress, however, apparently regards the Pact as still in force.—EDITOR.

GREAT BRITAIN: THE NARROW WAY?

I. THE ECONOMY PROBLEM

EVENTS have moved rapidly in this country during the past three months, and the country finds itself faced with a situation which, although it merely reflects an intensification of previously existing factors, is new in the sense that it has been freshly and dramatically brought within the knowledge of the public. For a long time Parliament, under the lead of the Government for the time being, has proceeded on the assumption that the national resources could stand moderate and progressive increases of the strain to which they have been continually subjected during the past decade. Those who have proclaimed the existence of a great and growing emergency have more than once received the assent of Mr. Snowden, but no action on the scale required has yet followed these warnings. Mr. Snowden has, no doubt, effectively resisted many extravagant suggestions, but it is obvious that concessions have had to be allowed here and there, few of them very expensive in themselves, but collectively sufficient to require a large increase in the national liabilities and a considerable increase in actual taxation. The policy of the Government has apparently remained based on the assumption that, although the state of trade and of the national finances was disquieting, there was time for the postponement of decisions pending inquiry, that there was some hope of matters righting themselves, and that meanwhile the nation could afford a modest

The Economy Problem

programme of expansion in the social services and a large programme of palliative relief works. If these assumptions existed, they have been subjected to three severe shocks.

An early blow to complacency was administered by the Treasury evidence before the Royal Commission on Unemployment Insurance,* and by the interim report of that body. The second shock was the doubt thrown, in the course of the mid-European financial crisis, upon the capacity of the Bank of England to maintain the pound sterling at its full international value without crippling losses of gold, and upon British credit generally. The third shock came with the calculations and suggestions of the Economy Committee, appointed last March at the instance of the House of Commons—Mr. Snowden's remark that he could write its report himself in advance will be within the recollection of our readers. The situation can best be described by a brief analysis of these three events.

The Unemployment Insurance Commission

The appointment of the Royal Commission arose out of the Government's recognition of the need for putting the Unemployment Insurance Fund on an insurance basis. The easiest course was to go on paying benefit from the Fund as long as its resources held out, borrowing the balance required to pay claimants on it, and using the proceeds of national taxation to pay benefit to those unemployed who could not qualify to draw it from the fund. Miss Bondfield had admitted that to go on borrowing would be dishonest, but the alternative of confining the insurance system to the proportion of the unemployed that the fund would support, and dealing with the rest by some new form of poor law, raised a prospect which it was extraordinarily difficult for any Government, and particularly for a Labour Government, to face. A Royal Commission, however, was appointed to face it and pressed

* See THE ROUND TABLE, No. 82, March 1931, p. 381.

Great Britain: The Narrow Way?

to issue an interim report. This report* was published on June 5. The Commission calculated, on the basis of 2,500,000 unemployed, that the total cost of the unemployment benefit scheme this year would be about £119,000,000 (of which £89,300,000 must be met by the Exchequer); the Treasury witness had shown that borrowing to meet the deficit on the fund now practically cancelled out the Sinking Fund, and that the national accounts were beginning to present "the ordinary and well-recognised signs of an unbalanced budget." The majority report† recommended an increase of contributions, a reduction of benefits, a limit of the insurance benefit period to 26 weeks in any one year, and the application of special tests to claimants belonging to certain classes. These recommendations were expected to reduce the cost (including debt) falling on the Exchequer by £30,000,000 a year. As a whole they were at once widely denounced in Labour circles, and the Trades Union Council prepared to launch a campaign against the report. The Government, however, decided to wait for the final report of the Commission, which may be expected towards the end of the year; and took no action, except to produce a Bill dealing with certain anomalies in the insurance system. This Bill proposed to allow the minister to draw up regulations governing the grant of benefit to certain classes of claimants, namely short-time, seasonal and intermittent workers, and married women, the broad effect of which would be that no person within the classes affected should draw benefit if at the same time he were earning substantial wages for broken periods of work or, in the case of married women, unless sufficient contributions had been paid after marriage to show that the claimant was really in the labour market. The Bill did not pretend to be a general reform, and concessions made to the Labour left

* Cmd. 3872.

† Two members signed a minority report, objecting to the increase in workers' and employers' contributions, the reduction of benefits, and some of the other recommendations of the majority.

The Economy Problem

wing during its passage much reduced its scope. At the very most, it will affect a few hundred thousand people out of the 2,700,000 on the register, and effect a saving of a few million pounds on a cost of over £100,000,000. It contained, however, an interesting administrative innovation whereby employers and employed, as being directly interested in unemployment insurance, are brought in to serve upon a new advisory committee which is to help the minister in framing regulations. This piece of machinery, although restricted by the Bill to so small a field, may well prove to be an essential part of the general reform of the system. But meanwhile Labour opinion has left no room for doubt that general reform on the lines laid down by the Committee is unacceptable to them, even though its absence involves an unbalanced budget.

The Mid-European Crisis

Another and still more unmistakable warning of the supreme importance of maintaining British credit was given by the precipitation of a financial crisis in central Europe. The crisis began with the revelation that the biggest financial institution in Austria, the Credit-Anstalt, was in serious difficulties, and it had to be tided over by prompt assistance from the Central Banks, including the Bank of England. Meanwhile signs of even greater difficulties were becoming apparent in Germany. Directly he was convinced of the imminence of the danger, President Hoover suggested that all inter-governmental payments arising out of the war should be suspended for a year. The British Government at once accepted the suggestion, though it involved an extra burden upon the British taxpayer of about £11,000,000. The announcement of the President produced a distinct improvement in the situation, though its general acceptance was delayed for some time, and its psychological benefits were gravely diminished, by the reluctance of the French Government to grant so great a measure of relief to Germany

Great Britain : The Narrow Way ?

unconditionally. Meanwhile a general financial collapse in Germany was only averted by the closing of the stock exchange and the banks. These events are dealt with more fully elsewhere, and it is only necessary to say here that the effect of these disturbances was to incline holders of liquid international assets, many of which take the form of balances in London, to call in their money. The pound sterling was unsupported by any improvement in the trade balance or by any attempt to restore budgetary equilibrium. The Bank of England lost £30,000,000 of gold in a fortnight. The bank rate was raised in two stages from 2½ per cent. to 4½ per cent., and this effectually diminished the outflow of gold. But to give Germany a breathing space it was clearly necessary that foreign balances, including British balances, should not be withdrawn from that country, and obviously British balances might have to be withdrawn unless the pound were supported. On August 1 it was announced that the Federal Reserve Bank of New York and the Bank of France had opened a credit of £50,000,000 in dollars and francs for the Bank of England. At the same time the Bank obtained permission to make a small increase in the fiduciary issue. Mr. Snowden confessed in the House of Commons that the difficulties with which the City was struggling, involving as they had a rise in the bank rate and in the rate of Treasury Bills, had prevented the launching of a huge debt conversion operation which would have resulted in a large saving of interest. Only an improvement in British credit can make possible a profitable conversion on a large scale, and even before the crisis British credit was weak. The rate at which the Government could borrow for a short term was really no criterion, since it reflected the insecurity of other forms of investment and the general downward trend of interest rates during a slump. In the debate during which Mr. Snowden made his announcement the situation was summed up in very similar terms by himself and Mr. Chamberlain, both of whom pointed out that British

The Economy Problem

resources were still enormous, but that British credit must be maintained by a balanced budget.

The Economy Report

It is still too early to say whether identity of expression means identity of views upon what is a balanced budget and how the budget is to be balanced. All that is certain at the moment is that the budget presented last April has been wholly belied by present circumstances, and that the budget for 1932-33 will present a very difficult problem. These facts were brought home by the report of the Economy Committee, issued on the very day that Parliament adjourned. The majority estimate that next year the gap between revenue and expenditure (including normal provision for debt redemption) will be £120,000,000. This figure allows nothing for the anticipated deficit on this year's budget, which other authorities have put at £50,000,000, and which ought, according to the generally accepted principles of British public finance, to be carried forward and made good next year. On the principle that sufficient unto next year is the evil thereof, the report proposes to fill most of the gap of £120,000,000 with economies totalling £96,578,000, a figure which would balance the current items of the budget and leave some £30,000,000 for the sinking fund. It should be noted that specific sinking funds attached to the terms of different loans total considerably more than this figure, and that on the estimate of the majority report the Government would have to borrow to pay off debt even if the proposed economies were effected. The report observes that although the cost of national defence has been cut to the bone, about £4,000,000 more can be pared off, chiefly from the pay of the personnel of the fighting services. It declares that, broadly speaking, the pay of civil servants is not too high for what they have to do—a timely answer to those who imagine that our troubles are due to the cost of the bureaucracy and not to the policy which the bureaucracy has to carry out. But it relies

Great Britain : The Narrow Way ?

mainly upon cuts in the social services, its largest recommendations involving a reduction of the Exchequer contributions by £66,500,000 for unemployment insurance* and £14,000,000 for education. The only other suggestion which would mean any large financial change was that the Road Fund should cease to be a separate account, and that expenditure upon the schemes which it finances should be reduced by nearly £8,000,000. There are, in addition, a large number of suggestions designed to prevent expansion of the cost of existing services in future years.

The scheme of economy thus outlined is admittedly distasteful; but the signatories of the majority report may ask with reason whether there is any less distasteful alternative to the prospect of continued budgetary deficits. Their own scheme has not escaped criticism. One of their proposals—in which the minority concur—is to abolish the Empire Marketing Board. That body, which cost some £600,000 last year, was set up in accordance with an agreement with the Dominions, and its work has been much appreciated by them; it is the only piece of inter-imperial machinery devoted to constructive economic purposes. Again, the £66,500,000—more than two-thirds of the total economies suggested—to be saved on Unemployment Insurance is not all genuine economy. About £17,000,000 is merely transferred from the general taxpayer to industry in the form of increased contributions and of contributions from industries previously exempt from compulsory insurance. The main criticism, however, of the scheme is that it fails to include the principle that the amount of contributions should have an actuarial relation to the amount of

* The recommendations of the Economy Committee on this point differ substantially from those of the Unemployment Insurance Commission. Larger increases of contributions and larger decreases of benefits are proposed than the Commission thought fit, and other proposals differ widely. It should be pointed out, however, that two members of the Royal Commission thought the changes designed to relieve the burden on the national finances might reasonably have been carried further, and that the Commission's report was not a final one.

The Economy Problem

benefit obtainable. But in support of their proposals the Committee are able to adduce three principles which it is difficult to question, namely, that the rise in the value of money provides a strong *prima facie* case for the revision of money obligations fixed under other conditions, that existing financial difficulties make it necessary for the nation to consider seriously what it can afford and not merely what is desirable, and that only by the strictest regard to economy and efficiency can trade be restored to prosperity and unemployment substantially diminished.

The signatories of the minority report, the two Labour members of the Committee, contend that a contraction of the social services is false economy. They consent to some reductions in the salaries of teachers, but they refuse to ask for any sacrifice from the recipients of public bounty ; at least until a corresponding sacrifice is exacted from the holders of government loans. The minority report does not view the prospect of an unbalanced budget with indifference, but it thinks that, failing economy in the service of the debt, the gap can and should be filled by fresh taxation, and it selects the " holders of fixed incomes " as the proper persons to bear the new burden, because they have profited by deflation. The minority report does not give figures showing what the results of its proposals would be, but so far as can be calculated such incomes would have to bear an extra charge of over three shillings in the pound, and although it would not be true to assume that the capital value of fixed interest-bearing securities would fall in corresponding measure, yet it would probably suffer a sufficient depreciation to react seriously on the yield of death duties and on the value of company reserves. The minority report likewise admits, though it proposes no method of avoiding, the injustice of treating all the holders of such securities alike, no matter when the purchase was effected. The injustice may nevertheless be very striking. A person who bought 2½ per cent. Consols thirty years ago has suffered a capital depreciation of about 40 per cent., while there are other

Great Britain : The Narrow Way ?

have to decide whether to negotiate a compromise or to introduce it again under the Parliament Act, but the Bill has lost much of its political relevance. If it was brought forward by Labour in the hope of securing a reversion of Liberal votes in the constituencies, recent by-elections seem to show that the vote has become smaller and that it is not very readily transferable to Labour candidates.

The quarter under review has been remarkable for the development of a supreme financial and economic crisis. It needed no committee's report to emphasise the urgent necessity of decision, and the return to London from their holiday of the Prime Minister and several of his colleagues, and also the visit of Mr. Baldwin, Mr. Chamberlain and Sir Herbert Samuel to Downing Street, indicate as we go to press that the necessity is realised. The Prime Minister has declared that the budget is to be balanced ; but he did not say to what extent it is to be done by economies and to what extent by means of fresh taxation, and at the moment of writing it is impossible to tell.

II. INDUSTRIAL RELATIONS

NO light has come to dispel the industrial darkness. The outlook in the summer months was almost uniformly unfavourable. The seasonal improvement was short-lived, and the indices of industrial activity gave little ground for hope of early revival. But the deepening of the depression has, so far at any rate, been accompanied by no serious rupture of industrial relations. From the clear cut views expressed by such bodies as the National Confederation of Employers' Organisations earlier in the year, it might have been supposed that the reduction of manufacturing costs by drastic wage reductions was the first thought of organised employers. But in actual negotiations their policy has proved by no means so ruthless or consistent. The pace of the wage reduction movement

Industrial Relations

has not been rapid, and the disposition towards conciliation has markedly affected the character of the compromises that have been reached.

The extent to which wage reduction has gone is not easy to measure. The Ministry of Labour's statistics show a reduction of £222,000 in the weekly wage bill in the first six months of this year; some 2,000,000 workpeople, it is computed, have lost on an average 2s. 3d. a week, or about 3 per cent. In most of the trades affected reductions appear to have been of the order of 2 to 5 per cent.; the largest cuts have been in the pottery trade (10 per cent.) and in the textile trades. The general average for all workpeople was, however, little changed by the movements of the first half of the year. Professor Bowley's index number, based on a number of selected industries, shows a fall of $1\frac{1}{4}$ per cent. in the six months, which agrees closely with the $1\frac{1}{2}$ per cent. fall in the index of the Trades Union Congress Research Department. The Ministry of Labour's estimates, based on a wider range, give the average of weekly full time rates in June as 70 per cent. over 1914 (compared with 70-74 per cent. in 1930), and of hourly rates at 90-95 per cent. (compared with 90-100 per cent.). From December 1924, to June 1931, there was, according to Professor Bowley's index, a fall of 3 per cent. in the level of wages, while the cost-of-living index number fell during the period by 16 per cent.

The gravest crisis of the last few months was in the coal industry, and it was not the direct consequence of the depression. Its date was settled by Parliament in 1926 when a five years' term was set to the Eight Hours Act. The Labour Government's Act of 1930, which reduced hours to 7½, still left the alternatives of a reversion to the 7-hour day on July 8 or fresh suspensory legislation. In spite of three months of negotiation between owners and miners, there was the inevitable breakdown at the last minute and the inevitable government intervention. The owners were prepared, as the price of the indefinite

Great Britain : The Narrow Way ?

continuance of the 7½-hour day, to guarantee present wages for twelve months. The miners wished for an assurance that at the end of this period wages would be protected by some form of national joint authority. After much delay the owners screwed themselves up to offer that a joint committee should meet periodically. This certainly marked an advance on their earlier attitude towards national negotiations, but there were strong forces among the miners against such a compromise. South Wales, smarting under the wage reductions of the Schiller award in March, demanded legislation to secure a cost-of-living wage; Yorkshire insisted that, whatever the consequences, the Government must implement its pledge to restore the 7-hour day. The Government cut the knot by rushing through legislation, which had the reluctant consent of all parties, to continue the 7½-hour day at current wage rates for twelve months. The Act was recognised to be a makeshift which settles nothing. If things go badly it merely sets the stage for a new crisis, with all its hampering effects on export trade, next July. But there are grounds for hoping that for once the industry may be able to avert a crisis by its own efforts. The Convention adopted by the International Labour Conference in June lays down a 7½-hour day (British reckoning, or 7¾ hours, Continental reckoning), and the British miners are prepared to wait until it can be brought into force by the principal coal-producing countries; the political demand for the 7-hour day is dead. Then there is a notable advance towards conciliation on the part of the leaders of the Miners' Federation, of which encouraging evidence was given by the speeches of Mr. E. Edwards, the new president, and Mr. A. J. Cook, the secretary, at the Blackpool conference in July. A third point of importance is that hours are now, for the first time since the stoppage of 1926, the same in all districts. The adjustment was made at the cost of some loss of wages where the "spreadover" was abandoned, but the path is smoothed for future negotiations.

Industrial Relations

Of the larger movements for wage reduction, that in the engineering industry followed an uneasy course until, faced by a virtual ultimatum, the unions accepted modified terms. The new agreement, which operates from July 6, reduces piece rates by 6½ per cent., reduces overtime and nightshift rates, and adds to the employer's incentive to work a shift system. The proposals of the shipbuilding employers were devised with some ingenuity to obtain greater uniformity of rates among time workers and to scale down piece rates and lessen the long-existing disparity between time rate and piece work earnings. The unions rejected the proposals but reconsidered them under threat of their enforcement. The industry is in a desperate state. The orders received by British yards in the first six months of 1931 were the least ever known, both in numbers and tonnage.

At the time of writing, negotiations about dockers' wages continue, and it is doubtful how far Mr. Bevin is prepared to carry his view that resistance to wage reductions is the workers' means of bringing pressure to bear on monetary policy. In this, as in other industries, heroic courses are hardly, perhaps, to be looked for. In general the events of the last few months have reflected the strength of collective bargaining, but the Yorkshire woollen and worsted industry forms an exception. The operatives' refusal last year of Lord Macmillan's award of reductions of about 9 per cent. led to the collapse of the Joint Industrial Council and of general agreements. A large section of the employers has now imposed a further reduction of 11·7 per cent. The unions found only slight support for a proposal to strike, and have fallen back on the demand that the Minister of Labour shall set up a trade board. This raises an interesting point, for although the wages of some operatives may now be below trade board rates, they may still, in terms of the cost of living, be above those of 1914. But, wages apart, it is to be noted that the industry has made no progress towards the rationalisation that it appears to need.

Great Britain : The Narrow Way ?

The cotton industry, on the other hand, is moving slowly, but not altogether unhopefully, towards important measures of internal reorganisation. The weavers' opposition to the "more looms" system—under which the operative runs more looms than the customary four—has become greatly modified in the six months that have passed since the lock-out.* They were able to prevent the general adoption of the system; they were not able to prevent its operation here and there by non-union labour. Now, in sheer self-defence, the unions are being compelled to recognise that if they do not make their peace with the system, the unemployed operatives will work it in spite of them. But educational influences have also been potent. The operatives' leaders who visited the Far East and saw the ruins of Lancashire's great trade have brought home the truth that there are worse things than a disturbance of tradition and habit. Meanwhile, the sectional organisations of the industry, acting through the Joint Committee of Cotton Trade Organisations, have agreed in principle on a scheme for the reduction of capacity by the scrapping of surplus plant. This will require statutory sanction for the raising of a compulsory levy to be used for the extinction or sterilisation of redundant machinery in all sections of the trade. Should the scheme go through—on that it is too early to speculate—it should help to strengthen the other efforts at reorganisation which are necessary if costs are to be reduced and markets regained. The regulated contraction of the industry to a more economical size is put forward as the first step in a common effort, which includes the creation of more large-scale units, better organisation of distribution, co-operation in the revision of wages lists and trade customs, improvement of technique and efficiency through the application of scientific method, better statistics, propaganda and so on. Whatever else may be said, the cotton industry does not suffer from lack of good intentions.

* THE ROUND TABLE, No. 82, March 1931, pp. 392-396.

Industrial Relations

There has been a further acquisition of eight shipyards on the north-east coast, which are to be scrapped under the shipbuilders' scheme for the reduction of capacity. The Coal Mines Reorganisation Commission has completed its preliminary survey of the coalfields and strongly advocates the concentration of production by means of large-scale amalgamations. It suggests that amalgamations of entire districts should be aimed at, although the first tasks that it sets the coalowners are more modest. A strong criticism is made of the effects of the quota system (set up under the Act of 1930) in maintaining weak pits in production. The reception of the report has been mixed; the Secretary for Mines has expressed misgivings about the social consequences of shutting down mines, and the familiar objections to amalgamations on the part of some coalowners have been revived.

It is, however, suggestive that in these three industries the weight of opinion lies in favour of radical surgical operations to reduce them to a scale consonant with their lessened importance in international trade. In each there is the idea of conscious planning on a large scale. The same thought runs through the reorganisation proposals of the trade unions in the iron and steel industry; it is implied in the Macmillan Report; and it is to be developed by the Trades Union Congress in September. The items on the credit side of our economic balance sheet are slender, but this trend of thought can certainly be put among them.

IRELAND : EVENTS IN THE FREE STATE

I. POLITICAL

A SUPERFICIAL observer of the present political situation in the Free State might be pardoned for believing that events were pursuing a normal course and that complete stability had been reached. Such a conclusion would not, however, be entirely accurate. It is true that Mr. Cosgrave's Government has now been in office for nearly nine years, and that during this period it has established law and order, immensely improved our economic condition, completed land purchase, developed our agricultural industry and our natural resources, and placed our national finances upon a firm and stable basis. Recent events, however, prove that the old demon of political unrest is still alive and that there are still disgruntled elements who would revive the rule of the gun if opportunity offered. It is notorious that in some parts of the country there has lately been a renewal of drilling, a reorganisation of the so-called Irish Republican Army, and that arms have been imported along our south-west coast. Quite recently two students were fired on and wounded in the Dublin mountains, and, as a result, an armed post of the detective force was established at Killakea House above Rathfarnham. Whilst searching the vicinity they discovered a carefully concealed cave containing many hundreds of rifles, two Lewis guns, thousands of

Political

rounds of ammunition, automatic pistols, fuses, detonators, and military literature. *An Poblacht*, the extremist weekly, boasts that this is only one of a hundred similar dumps scattered over the country. Nor are these manifestations confined to hidden munitions of war and secret conspiracy.

The annual commemoration ceremonies at the grave of Wolfe Tone have furnished occasion for a display of a more public nature. This Protestant leader of the United Irishmen, although an anti-clerical freethinker inspired by the French Revolution, has during recent years become the patron saint of our extreme nationalists. Since the Treaty of 1921 the Government has commemorated his death by a military march past the graveyard in Bodenstown, County Kildare, where he is buried, and Mr. de Valera's party by a political meeting held at a different hour in the same place on the same day. The remarkable feature of this year's demonstration was that Mr. de Valera's followers apparently arranged to hold a joint procession with the more extreme Republican Army. Military orders were published in the papers, special trains were arranged to convey the various commandos from different parts of the country at reduced fares, and a march past worthy of the occasion would no doubt have taken place. Unfortunately for this well-planned scheme, the Government, late on the previous night, ordered the railway company to cancel the special trains, and the demonstration, thereby reduced to attenuated proportions, was prohibited by the Civic Guard from indulging in military evolutions. The organisers have since been prosecuted and returned for trial under the Treason Felony Act. One would have thought that Mr. de Valera had already suffered sufficiently from association with military conspiracies over which he has no control, but, like the Bourbons, he apparently learns nothing and forgets nothing. His action on this occasion illustrates only too well his fatal weakness in dealing with the threats of armed men no matter how small or impossible the element they represent.

Ireland : Events in the Free State

The demonstration at Bodenstown was of course also useful as a side-show in the Kildare by-election, which has just taken place owing to the death of one of the Labour deputies representing that constituency, and resulted in the election of Mr. Harris, the Fianna Fail candidate, by a majority of 509 votes over Mr. Conlon, the Government nominee, the Labour candidate being a bad third. Kildare is one of the few eastern constituencies in which Mr. de Valera's party have a firm hold, and in the two last general elections the Republican candidates were at the top of the poll. The result was therefore expected, as the Government candidate was attacking a definitely hostile position, and Irish voters do not quickly change their opinions. Moreover the prevalent agricultural depression, the partial nature of the Government's de-rating scheme, the removal of the large English garrison from the Curragh and the existing dispute between the beet-growing farmers and the Carlow sugar factory, both of which seriously affect the district, all handicapped the Government candidate. By-elections in a relatively poor country like Ireland are really a serious waste of time, energy and money, and Mr. Cosgrave suggested at an early stage in the life of the present Dail that casual vacancies might be filled by allowing the party to which the outgoing member belonged to nominate a successor without opposition, but the other parties would not agree to this course. A possible solution of the difficulty would be to fill casual vacancies between general elections in accordance with the Tasmanian practice. In Tasmania the ballot papers are preserved, and, in the event of a vacancy, the vacating member's quota of ballot papers is re-examined and the candidate who polls a majority of the next choices thereon is elected to fill the vacancy. This system has now been in operation for some years, and seems to give complete satisfaction.

Another occurrence which indicates the condition of the country is the fact that the Government has found it necessary to re-enact for another two years the Jurors

Political

Protection Act of 1929,* which in the ordinary course of events would have expired in September next. The necessity for this Act arose from the fact that jurymen had been intimidated, and that one jurymen had actually been fired at in an attempt to murder him. There is little doubt that the revival of violent methods is designed rather to intimidate voters at the next general election than to promote armed rebellion. If the voters had sufficient pluck such threats might easily have the opposite effect to that intended, but unfortunately moral courage is not one of our national virtues.

It is understood that the Government also intend to introduce a Bill which will give the police larger powers of dealing with conspiracy against the State, and this is sure to be strongly opposed by the Fianna Fail party. There are of course many other things which will operate against the Government when the election takes place. For instance, under English rule the income tax code in Ireland was administered in an extremely lax and generous manner, and evasion was an easy matter. Since the Treaty the Irish income tax officials, with a more extensive knowledge of our national characteristics, have left no stone unturned to make the taxpayer pay up, often to the extent of compelling repayment of arrears which our present Government, in its pre-treaty existence, had ordered him not to pay. Nor has open and honest confession of past misdeeds always led to speedy absolution. It is even rumoured that a leading member of the Government had to pay the arrears of income tax due from a distinguished member of the Catholic hierarchy upon whom the revenue bailiffs were about to descend. This procedure, whilst no doubt entirely legal, has led to considerable bitterness and inspired many voters of neutral views with a dislike of the Government sufficiently strong to destroy their sense of values. They may no doubt have time to repent at leisure if they

* See THE ROUND TABLE, No. 76, September 1929, p. 823.

Ireland : Events in the Free State

have to suffer the numerous imposts which will be necessary to finance Mr. de Valera's policy.

Another source of irritation has been the administration of the old age pensions scheme, which is now enforced according to the strict letter of the law. No longer can aged farmers, as in the old days, assign their farms to their sons, and thereafter enjoy the old age pension. Having regard to the slender majority that the Government now commands, and the undoubted fact that Irish voters do not easily change their opinions or parties, it is almost certain that the result of the next general election—which is not likely to take place before its allotted time in September 1932—will depend on whether these official activities have alienated a sufficient number of voters to wipe out the present Government majority. It is a question very difficult to answer at present.

Another serious cause of annoyance is the activities of the Local Appointments Commission,* and of the Minister for Local Government, General Richard Mulcahy. This Commission, which is an impartial and efficient central body, has virtually, except in cases of promotion, complete control over local government appointments, and has discharged its duties admirably. Its creation was one of the Government's best and most courageous acts, but its methods clash with one of the oldest Irish institutions—the clan system—by which appointments of this nature in the past went to the candidate with the greatest local influence, often entirely regardless of his merits. The new system, under which a clever son of a Donegal labourer may easily be appointed a dispensary doctor in the County Cork if he is the best qualified candidate for the position, has effected something approaching a social revolution—a revolution which will, if it is not upset, eventually give us a first class local government civil service. The most recent disturbance it has caused is due to the appointment

* See THE ROUND TABLE, No. 64, September 1926, p. 820; No. 69, December 1927, p. 152; and No. 72, September 1928, p. 821.

Political

of Miss Dunbar-Harrison,* a Trinity College graduate, as librarian in County Mayo, an appointment which led to the dissolution of the Mayo County Council. The latest repercussion of this event has been the moving of a vote of censure on the Government in the Dail, and the fact that this motion was moved by Mr. Davis, T.D., the chairman of the Cumann na nGaedheal, or Government party, who is also chairman of the dissolved Mayo County Council, indicates the strength of the forces arrayed against the Government on this question. The vote was moved on the second stage of a Local Government Bill designed to validate the result of certain actions taken by the Minister when the Dublin Borough Council was dissolved in 1929, and, although it was defeated by a majority of eleven, it gave the opponents of the Government policy an excellent opportunity of making a protest. It transpired during the debate that, owing to the political and religious boycott of the library service in Mayo since Miss Dunbar-Harrison's appointment, four centres are in operation as compared with 112 last December. Mr. de Valera stated that the policy of his party was that the Catholic majority was entitled to have Catholic librarians and Catholic doctors, and that this was a fundamental teaching and a fundamental matter for Catholics. There is no reason why this doctrine should not be extended to cover all other occupations, and as regards public appointments it might be more honest to state openly that no Protestant need apply. No charitable or honest Catholic can subscribe to such an unchristian doctrine, nor will any responsible Catholic authority proclaim it as fundamental. It is regrettable that Mr. de Valera, who is at least acquainted with the tolerant traditions of Irish nationalism, should seek to catch votes by playing to the gallery in this way. The whole Mayo agitation is inspired by purely local interests, and it is noticeable that the Irish Catholic hierarchy has taken no action in support of the local bishop and clergy, who have

* See THE ROUND TABLE, No. 82, March 1931, p. 403, *et seq.*

Ireland : Events in the Free State

been most vociferous in the matter. General Mulcahy, when replying for the Government, pointed out that it was strange that a Protestant librarian was a danger to the faith in Mayo and not in other counties where similar appointments have apparently given complete satisfaction, and that he intended to administer the law without fear or favour.

The Town Tenants Bill* is still under consideration by the Dail, and its provisions seem to be disliked by both tenants and landlords, which may be an indication that it is both just and reasonable. Senator Sir John Keane, who is the town landlords' spokesman, speaking at their annual meeting, denounced the measure as taking away from free men the right to act as they wished in open contract regarding their property, bringing the fixing of rents and contracts within the purview of the courts, and so destroying that flexibility in relation to property dealings which, he believed, was the essence of all progress. No doubt he will have more to say when the Bill reaches the Senate.

The status of the Free State still continues to exercise the minds of our politicians. Speaking recently in Dublin, Mr. McGilligan, Minister for External Affairs, pointed out that our task was two-fold—to cultivate good relations, in the first place with the members of the Commonwealth, and in the second place with the principal States of the world. Our past history and our urgent national needs necessitated the early adjustment of our relations with Great Britain and the other States of the British Commonwealth. We could not, and we never should, be satisfied with any form of subordination to an external authority. Co-equality was our aim, and he thought that we could say with truth that co-equality has been our achievement. The treaty with Great Britain achieved one great object, the right to develop and evolve on constitutional lines, until every shadow and trace of external rule had been

See THE ROUND TABLE, No. 83, June 1931, p. 620.

Political

eliminated. Every evil died hard, and there were still those in obscure places who desired to perpetuate the old discords and to retain—for sinister purposes—some elements of the old control. Such people had no care for the interests of this country, nor for those of Great Britain. Every element of continuing control became a festering sore, and the people of these two countries had every right to regard as enemies those who were blind enough to advocate the continuance of any institution whose authority was derived from sources external to the Irish people. This obvious reference to the question of the right of appeal to the Judicial Committee of the Privy Council was emphasised more bluntly by Mr. Cosgrave when speaking at the annual convention of the Government party on May 5. We had, he said, made it clear that the growth of friendly relations between us and Great Britain depended upon the complete elimination, in form as well as in substance, of any appearance of inequality. The process of eliminating these difficulties had been going on steadily since 1922. It had not been without difficulty. The main question still outstanding between us and Great Britain was the Judicial Committee of the Privy Council. Appeals to that body from our Supreme Court were an anomaly and an anachronism. Their continuance was incompatible with our status and an insult to our dignity and our sense of fair play. In the interests of both countries, and of their better friendship, this appeal must disappear, and soon.

Mr. de Valera's latest excursion into foreign affairs has been an abortive and ingenuous question in the Dail as to whether, in view of the likelihood of President Hoover's proposal for a moratorium in connection with international payments being accepted, the Government is taking steps to see that proper representations are made to secure that the land annuities and other sums totalling over £5 million, sent by us annually to England, are included in the category of payments to which the moratorium will apply.

Ireland : Events in the Free State

With his usual unconscious humour he added the saving clause : "without prejudice to our conviction that these payments are not justly due." What the payment of land annuities, most of which are due since 1903, has to do with war debts no one but a person of Mr. de Valera's mentality can conceive. It is pleasant, however, to record that the Dail was for once unanimous in approving the adhesion of the Free State to the General Act for the Pacific Settlement of International Disputes, which Mr. McGilligan brought before that assembly on June 26. He was even able to satisfy the Fianna Fail party that the delay in doing so was not due to any occult trickery for the purpose of securing the support of Great Britain and the other Dominions for the election of the Free State to the Council of the League.

During June a Treaty of Commerce and Navigation was signed in Dublin between France and the Free State. On this occasion Mr. McGilligan emphasised the fact that France was our oldest friend among the nations and that French soldiers shed their blood here fighting with us against England, who was then our common enemy and has since become our common friend. Many thousands of Irish soldiers had also fought and died in the armies of France on the continent. This treaty was a further step towards renewed co-operation and friendship in a new and better sphere of action. He also paid a warm tribute to M. Alphand, the French Minister in Dublin, who in a short time has become one of the most popular members of the new diplomatic corps. The treaty gives certain concessions to French products, principally wine, in return for similar concessions to us, one of which will facilitate the export of Ford tractors from Cork. To counter-balance these manifestations of affection for France, Mr. McGilligan, after the meeting of the League Council at Geneva, also paid a visit to Berlin, where he received a warm welcome. All these interchanges of international courtesy are excellent. They help both to establish our

self-respect and to bring us once more into direct touch with European affairs.

A recent article in *An tOglac*, the Irish army quarterly, which is obviously written by a member of the Government, probably Mr. Blythe, Minister for Finance, discusses the problem of our external defence in a clear and interesting manner, and has been referred to in the Dail debates on the estimates. The writer believes that we shall be faced with a war situation here only if and when Great Britain is engaged in a conflict with a European State or States. He points out that Great Britain will not willingly participate in any future European struggle, unless her most vital interests are endangered, that the piratical phase of British history is at an end, and that trouble will not be brought upon us by British aggression, but that if we had no adequate defence force a very serious situation would arise should Great Britain fail to hold the effective command of the seas. We cannot afford to maintain a standing army of adequate size, but the writer believes that a mixed militia and territorial force can be provided cheaply enough to enable us, in the event of war, to mobilise a very considerable force trained to undertake effectively the duties of home defence. In no circumstances should we prepare a force for use outside the country. This article indicates that the military policy of our present Government, which is clearly dictated both by political expediency and financial necessity, is one of defence not defiance. At the present time the standing army of the Free State numbers only about 5,300 men with 500 officers. There are in addition about 4,000 men in the A reserve, 3,600 men in the B reserve, and about 900 men in the newly formed volunteer reserve. The whole form of the army has been completely changed during the last three years, and the Minister for Defence, Mr. Desmond Fitzgerald, has recently stated in the Dail that he does not intend to bring in a permanent army Bill until the ultimate form of the army is settled. It is pleasant to record that this year, for the first time,

Ireland : Events in the Free State

cadets from Trinity College and the National University marched shoulder to shoulder in the St. Patrick's day parade through the streets of Dublin—a fine symbol of the new Ireland. The controversy about what national anthem should be played when the Governor-General attends the Trinity College sports* has also been happily settled by the playing of the "Soldiers' Song" when he arrives and "God Save the King" after he departs. Ireland being what it is, this will probably need the employment of different bands to do justice to the respective tunes ; but if political harmony is established by this expedient it is no doubt worth the price.

The Dail has now adjourned until October. A recent return shows that its activities during 1930 comprised 59 days' work, the passage of 35 Acts, and the putting of 826 questions, which, everything considered, is quite a creditable record.

II. ECONOMIC AND GENERAL

THE revenue returns for the first quarter of the present financial year clearly show that the Free State is beginning to feel the effect of the world-wide economic depression. They disclose a deficit of £1,212,618—revenue having fallen by £734,282, and expenditure increased by £379,293. The trade returns to the end of April also show a big fall in both exports and imports. The detailed revenue figures disclose a fall of approximately 40 per cent. in income tax, and 50 per cent. in excise. In spite of, or perhaps because of, our tariffs the customs revenue has substantially increased. Our exports for the current quarter will be much reduced by the restriction on the export of cattle, due to an outbreak of foot and mouth disease in County Down in Northern Ireland. All movement of cattle from Northern Ireland into the Free State

* See THE ROUND TABLE, No. 76, September 1929, p. 828.

Economic and General

had to be prohibited, and it is calculated that the resulting financial loss to all concerned will be well over half a million pounds. Fortunately there are now abattoirs at Cork and Waterford where animals can be killed, and it is also not so costly to hold over stock at this time of year when there is plenty of grass. Because of malicious rumours to the contrary, it is well to emphasise the fact that no foot and mouth disease exists at present in the Free State.

For the first time since the terrible famine year of 1847 the population of the Free State area shows a tendency to increase. The estimated figures for 1930 show an increase of 6,000. This result is undoubtedly due to the considerable reduction of emigration to the United States of America. Intending emigrants under the existing regulations are required to carry a substantial sum of money so that they will not have to join the unemployed on their arrival in America, and this has acted as an effective barrier. It is interesting to note that this restriction of emigration, which naturally increases the number of idle young men in the Free State, has, as already mentioned, coincided with a revival of illegal conspiracy and illicit drilling. In the past a similar cause has had similar results. The population figures also show that the Free State is one of the few countries where the male population substantially exceeds the female. The excess is estimated at 72,000 in a total population of 2,950,000.

The reorganisation of our dairy industry is not yet complete, and has received a rather serious set-back through the dissolution of the Irish Associated Creameries Company, which was formed for the purpose of combined marketing operations on behalf of the co-operative creameries. There is, however, a movement towards consolidation among these creameries, and if and when Mr. Hogan, Minister for Agriculture, can purchase the few remaining proprietary creameries a further effort no doubt will be made to deal collectively with the large buyers, and thus maintain a stable and uniform export price. The importance of this

Ireland : Events in the Free State

industry is shown by the fact that there were over 1,200,000 milch cows in the Free State on June 1, 1930. Over half of these are found in the province of Munster, a district equal in population and area to only one-third of the whole State. Of the milk obtained from these cows three-fourths is converted into butter, valued at over £12,000,000 per annum. About one-third of the butter produced is exported to Great Britain, in which market the Free State supplies 9 per cent. of the total supply. It may be added that the Free State stands fifth amongst the butter producing countries of the world. More than half of the butter produced is made by farmers. Some of it is sold to a few butter factory merchants around Cork, who blend and then sell it as factory butter. The remainder is made by some 300 creameries, whose employees number 3,500, and whose annual wage bill is about £400,000. Fresh cream and condensed milk are also exported, but the output of cheese is insignificant, because the by-product of cheese is not suitable for calf raising, whereas 85 per cent. of the milk used in the manufacture of butter is returned directly to the farmers for use as calf food, thus assisting the greatest single business of the country—cattle exporting.

Another important business, the Hospitals Sweepstake,* continues its triumphant progress, in spite of all external opposition. The prize fund, which was £400,000 in the first sweep, rose to over a million for the Grand National, and two millions for the Derby. Five millions is talked of for the next sweep on the November Handicap. The hospitals have already benefited to the extent of over a million and a quarter pounds, and future gains are to be shared in by the country public health hospitals, which are supported by the rates. There is of course another side to the story, as there is little doubt that the withdrawal of even the Free State's share of this great sum of money from business circulation has injuriously affected general

* See THE ROUND TABLE, No. 80, September 1930, p. 835; No. 82, March 1931, p. 412; and No. 83, June 1931, p. 633.

Economic and General

trade, and that the large individual prizes awarded have stimulated gambling and dishonesty among the poorer classes. Moreover an attempt was made to initiate a rival and illegal sweepstake, alleged to be in aid of the Gaeltacht or Irish-speaking districts, which was promptly terminated by a Government prosecution. The motives of its promoters may not have been entirely altruistic.

A considerable amount of electricity, not altogether of a positive kind, has been generated by the recent disclosures concerning the financial management of the Electricity Supply Board* which controls the Shannon power plant and the national supply of electricity. It has been obvious for some time that things were not going smoothly, and the resignation of the chairman, Mr. J. J. Murphy, formerly Town Clerk of Dublin, and of Dr. T. A. MacLaughlin, the managing director, led to much speculation. Mr. McGilligan, Minister for Industry and Commerce, when introducing an amending Electricity Supply Bill in the Dail on July 8, explained what had taken place. The Board, as originally set up, was independent of the Government, but subject to removal. It was bound to publicity, especially in regard to its finances, and to produce certain specified accounts, reports and returns. It was obliged to take over all undischarged liabilities of existing statutory undertakings, and to set aside a sum equal to the fair value, as assessed, of the privately owned authorised undertakings. It had no borrowing powers, and its initial capital expenditure was limited to a sum of £2,500,000 voted by the Dail. All other expenses, sinking fund, renewals, depreciation and so forth, were to be met out of revenue. The Board, according to Mr. McGilligan, has overspent this loan by £600,000, and has committed itself to further expenditure amounting to £250,000. Repeated attempts to obtain information as to the Board's finances had failed, and Mr. McGilligan

* See *THE ROUND TABLE*, No. 67, June 1927, p. 590; and No. 69, December 1927, p. 153.

Ireland : Events in the Free State

stated that if all the members of the Board had resigned he would have accepted their resignations. If the chairman had not resigned he would have asked for his dismissal. The Government cannot be considered blameless in the matter, because after all the Board was composed of its nominees. It is unfortunately another case of sending a boy on a man's errand. Few business men in Ireland have the experience or capacity to deal with a concern of this kind, and those who were nominated to do so were apparently quite unequal to the task. It would have been far better if the Government had employed the best outside expert assistance available, at least during the early stages of the scheme, and placed it in complete control of administration. Unless this course is now taken and a full inquiry held into the causes of the present situation, our last condition may easily be worse than our first. The Bill now introduced provides for a further advance of £2,000,000 to be paid to the Board at the Minister's discretion. The one bright spot, for which they deserve great credit, is the fact that Mr. de Valera and his party, in criticising the situation, have never lost sight of the fact that the Shannon scheme is a great national undertaking and have avoided the natural temptation to make party capital out of the affair.

The Irish Free State.

August 1931.

CANADA

I. PARLIAMENT AND THE DEPRESSION

THE first regular session of the present Federal Parliament of Canada opened abnormally late, on March 12, and as a consequence the prorogation, which in recent years has usually occurred before the end of June, may not be possible now before the last week of July.* The crop of legislation was not by itself large enough to justify a four months' session, since the only measure of major importance was the Bill for the establishment of a new tariff board. But the economic problems in which the Dominion is involved provided ample material for discussion, and from the start of the session the Liberals, who had a band of indefatigable guerrilla warriors on their back benches, manifested a disposition to bait and harass the Ministry. Even the humid midsummer heat of the Ottawa valley, which in the past has been a notable accelerator of public business, failed to damp the Opposition's ardour for contentious argument, persistent interrogation and skilful obstruction of estimates; the name of *Rivière du Loup* is graven on ministerial hearts, for Mr. Jean François Pouliot, Liberal member for Temiscouata, aggrieved that a station voted for that town had never been built, addressed 200 questions to ministers on the subject and in addition secured 75 orders for documents concerning it. At

* The Canadian Parliament was prorogued on August 3.—Ed.

Canada

intervals the Liberals received assistance from the Progressives, Labourites and Independents, but the Progressives evinced a continuous anxiety to demonstrate their untainted independence and a number of them voted with the Government on different issues. At times when nerves became frayed in the uncomfortable sultriness of the Commons Chamber there were some bitter exchanges, and the management of the House proved no easy task for Mr. George Black, the new Speaker. Mr. Bennett continued to carry on his own shoulders the main burden and heat of debate to an extent which no previous premier has ever attempted, and by the end of the session the effects of the strain which he imposed upon himself were plainly visible. They prevented the manifestation of the serene and conciliatory temper which would have facilitated the smooth transaction of business, and to a considerable degree nullified the advantage which the Premier's experienced mastery of so many problems and resourceful versatility in debate conferred upon the Ministry. Naturally Mr. Bennett's monopolisation of the conduct of parliamentary business provoked from the Opposition benches recurring taunts that he was constituting himself a dictator and treating his colleagues as helpless nonentities who could not be safely trusted with the exposition of problems connected with their own departments, but these gibes left Mr. Bennett completely unmoved. However, Mr. Gordon, the Minister of Immigration, and Mr. Weir, the Minister of Agriculture, have justified their speedy promotion to Cabinet rank immediately after their first election to Parliament, and on the Conservative back benches two Quebec lawyers, Mr. John Hackett of Montreal and Mr. Onesiphore Gagnon of Quebec, have shewn promise of real parliamentary gifts. On the Liberal side Mr. Mackenzie King, Mr. Lapointe and Colonel Ralston provided the heavy artillery and the last has by a series of excellent speeches materially increased his prestige as a debater of the first rank. Captain Ian Mackenzie and Mr. Hanbury

Parliament and the Depression

of Vancouver, two new recruits, and Mr. Hiley of Nova Scotia, who sat in the last House, have also given evidence that they possess sound parliamentary talents. The Progressive group are now all political veterans, and as usual they spent a good deal of time expounding their pet panaceas, such as currency inflation, for the country's troubles, while the Labourites assiduously kept the unemployment issue in the foreground. Mr. Bourassa continued to enjoy himself immensely in the rôle of the candid friend and critic of both major parties, and during the session he developed what was for him a new vein of advanced radicalism, directing bitter criticisms against the existing social and economic order and pleading the cause of the classes who were suffering from its flaws and disabilities.

The real climacteric of the session was the budget, the submission of which was delayed for a variety of reasons until June 1. Mr. Bennett is still acting as his own Minister of Finance, although he has now announced his intention of finding an occupant for the Treasury as soon as possible, and it is to his credit that in his budget speech he gave the Canadian people the most thorough and comprehensive statement of their financial position that has been offered them for many years. He estimated the total revenues for the fiscal year 1930-31 at \$356,215,000 as compared with \$446,182,000 in the previous year, and, expenditure having been \$440,060,657 as compared with \$398,442,247, he showed a deficit of roughly 84 million dollars. He stated that the national debt on March 31, 1931, was \$2,610,788,917 from which active assets valued at \$349,180,601 had to be deducted, leaving the net national debt at \$2,261,608,316, but he pointed out that account must also be taken of indirect obligations aggregating \$1,269,000,000, for all of which except some 31 million dollars the Canadian National Railway account was responsible. He indulged in a somewhat pessimistic and decidedly critical view of the financial situation of the

Canada

Canadian National Railway, and adduced statistics to show that since it had become a unified system in 1923 its aggregate losses had reached the ominous total of 346 million dollars. While he admitted that of this sum 253 millions was a book debit, on account of unpaid interest on cash advances aggregating \$604,000,000 which had been made by the Federal Treasury, he drew attention to what he regarded as the most serious feature of the position, that the revenues in eight years had fallen short by \$86,000,000 of operating expenses and fixed charges due to the public; he also said that he found another disturbing aspect in the fact that despite an increase since 1923 of \$400,000,000 in the capital investment in the railway, the gross earnings in 1930 were actually less than in 1923. He directed severe criticisms against the King Government for permitting the president and directors of the Canadian National Railway to spend money without any serious check, and he declared that, while his criticisms must not be construed as indicating hostility to the State-owned system, he desired to impress the country with the seriousness of the problems involved in what are now admittedly the embarrassed fortunes of the Canadian National system.

For the current fiscal year Mr. Bennett estimated that the revenues on the basis of existing taxation would yield only \$325,000,000, and as the estimates had called for \$430,000,000 a gap of \$105,000,000 had to be bridged. Of this sum, he proposed to raise \$20,000,000 by borrowing for capital expenditures and about \$78,000,000 by fresh taxation. He claimed that this would leave a prospective deficit for the current year of approximately \$7,000,000, which might disappear if trade improved and revenues increased. However, all his calculations seem now to have been upset by the calamity that has befallen western Canada owing to the ravages of drought in the wheat fields.

For raising new revenue Mr. Bennett proposed a variety of additional taxes. He increased the general rate of the sales tax from 1 per cent. to 4 per cent. and in addition

Parliament and the Depression

added a special excise sales tax on all imported goods, which will have to be 5 per cent. ; in his original proposals he also abolished most of the exemptions from the sales tax, but later, under pressure from business interests, restored practically every one of them. He further increased the corporation tax from 8 per cent. to 10 per cent. and restored the three-cent postage rate by an increase of one cent on all existing rates, and made some other minor changes calculated to produce more revenue.

It was, however, the tariff proposals of the budget which were awaited with the keenest interest, and although Mr. Bennett expressed his regret that he had found it impossible to undertake the general revision of the tariff that he had planned, the changes proposed covered approximately 200 items of the customs tariff and meant taking a second long step towards rounding off the "Canada First" policy of higher protection. It is estimated that they will affect some 200 million dollars worth of import trade, and as a similar volume was affected by the tariff revision of the emergency session, at least half of Canada's total imports are now experiencing the full impact of the "Canada First" policy. The changes hit practically every country which trades with Canada, but the United States will be the chief victim and cannot fail to suffer another serious curtailment of its exports to Canada. If, for instance, the plans embodied in the budget for the stimulation of what is called a "national fuel policy" are successful, a substantial volume of business should be diverted from American to British and Canadian mining interests. For the first time in history American anthracite coal is subjected to a levy of 40 cents per ton, while British anthracite is left upon the free list. The duty on American bituminous coal is also raised from 50 to 75 cents per ton and on coke to \$1 per ton. There are also provisions for generous freight rate subventions devised to give the mines of the maritime provinces more favourable access to the market of Ontario and to confer a similar advantage upon the mines of Alberta

Canada

and British Columbia in the prairie market. There are also important changes in the motor schedules, intended to transform Canadian motor factories—many of which have been merely assembling plants—into complete manufacturers of cars; the entry of used motor vehicles is completely banned. In the iron and steel schedules, which were left untouched at the emergency session, there is a series of increases and adjustments chiefly for the benefit of the domestic industry. Despite the assurances given in the *Speech from the Throne* that the changes in the British preference would only be in the nature of incidental adjustments, increased duties on iron and steel products, leather goods, pickles, furniture and some other commodities are calculated to diminish British exports of these products to Canada, although there should be a gain in coal exports. For purely revenue purposes a duty on tea, which the Liberals had wiped out, has been reimposed and there are additional imposts upon certain fruits and vegetables. One interesting innovation of the budget is a heavy tax upon American magazines and periodicals entering Canada, and another is a provision for a freight rate subsidy of five cents per bushel on all wheat exported, for the purpose of helping the prairie farmer. Critics of this proposal, who include the Canadian millers, contend that, if the subvention is paid to transportation interests, it will operate mainly to the benefit of European importers, and the western press is urging that, if the bonus is intended to assist the producer, it should be paid direct to him.

Apart from the actual alterations in the customs schedules, the budget aims at a general tightening of the protectionist system. The Customs Act has long contained a section which empowered the Government to impose a surtax upon the goods of any country which failed to give Canada equitable tariff treatment, but it was low and has rarely been imposed; now, however, the budget provides that the rate of this surtax shall be fixed at 33½ per cent., which will constitute a virtual embargo.

Parliament and the Depression

Power is also taken by order-in-council to withdraw the privileges of the British preference from any country which is deemed to have forfeited them by its fiscal policy towards Canada. Again, only a small duty has been hitherto levied upon articles not specifically enumerated in the customs tariff, but it has now been fixed at the flat rate of 25 per cent. which means that all new inventions, new articles, new fruits, etc., will have to pay this rate. For the protection of the consumer, more effective measures are devised to prevent manufacturers from exploiting the tariff by increasing their prices. An amendment passed at the emergency session empowered the Government to withdraw their protection from manufacturers who raised their prices, but it was found ineffective and now the Government is taking to itself power to levy upon any manufacturer who raises his prices an excise tax equivalent to the tariff upon his products.

The budget was subjected to very severe criticism by the Liberals and other Opposition groups, but their chief attack was directed against the tariff increases. Mr. Mackenzie King gave a lead which was generally followed in arguing that high protection was completely unsuited to the special circumstances of Canada, and that the Government's policy, as exemplified by the budget tariff proposals, could not fail to produce disastrous stagnation in Canadian trade. The western members on the Opposition benches inveighed with special ferocity against the tariff changes and maintained that they would not only increase the farmers' cost of production, but would also provoke fiscal reprisals which would accentuate the difficulty of finding profitable markets for Canada's agricultural produce. In reply, Mr. Bennett argued that special tariff measures were required to meet the situation confronting Canada, which he went so far as to describe as the "most serious industrial crisis in her history." He said that if steps were not taken to prevent the dumping in the Canadian market of certain classes of goods of which

other countries had a large surplus, it might mean the complete extinction of Canadian industries engaged in the manufacture of these commodities, and he cited instances of the dumping practices which some of the tariff changes sought to prohibit. He also claimed that the tariff increases of the emergency session had already justified themselves inasmuch as, since they were decreed, 87 new industrial plants had been established in Canada, mostly by American interests. But the Liberals challenged the validity of this claim, alleging that the rate of industrial expansion had been greater in previous years under a Liberal administration. Liberal and Progressive amendments to the budget were easily defeated, and in the end the Government had a comfortable majority of 102-72 on the main motion. During the committee stage, the Opposition continued their criticism of individual items, but could only compel the Government to agree to some minor adjustments.

By far the most controversial measure of the session was the Government's Bill for creating a new type of tariff board as a substitute for the board which the King Ministry had established and which Mr. Bennett immediately after assuming office had abolished, on the ground that it lacked proper statutory authority and had manipulated its inquiries for political ends. The projected new board was modelled on the lines of the tariff commission which was designed in 1912 by Sir Thomas White, but was killed by the Liberal majority in the Senate. Mr. Bennett explained that it would be a non-partisan body with a judicial outlook and fact-finding powers, and that one of its main duties would be to ascertain the relative costs of production in Canada and foreign countries as a basis for tariff making, but that the actual power of finally fixing the rates would remain with the Government. It was provided that the chairman should have a salary of \$15,000, and the other members \$10,000, and that they should hold office for a period of ten years and be eligible

Parliament and the Depression

for re-appointment. The Liberals, who were naturally aggrieved at the elimination of their own board, took strong objection to many features of the Bill, and after unsuccessfully moving on the second reading an amendment for its postponement, they fought it clause by clause in committee. They criticised the powers conferred upon the board to say what was a proper rate of duty, but they directed their chief fire against the provision for a ten-year tenure of office for the members of the board; they contended that, in view of the political implications of the tariff, if the board was to function efficiently it must enjoy the confidence of and be sympathetic to the Government of the day, and that the Bennett Ministry was trying to rivet a high protectionist system indefinitely upon the country. When the Government, which claimed that the experience secured in a long term of office would conduce to the administrative efficiency of the board, would not recede from its position, Mr. Mackenzie King bluntly threatened that if the Liberals came into power they would rid themselves of appointees of the Conservative Government by the simple device of refusing to vote monies for their salaries. The battle on this measure was maintained for several days, but some of the Progressives were disposed to give the new board a fair trial, and the Government was always able to command comfortable majorities to defeat the different amendments that were proposed in committee. It remains, however, to be seen how the measure will fare in the Senate, where the Liberals at full strength still command a majority of one.

On June 30 there was a brief and wholly friendly debate on the resolution seeking the approval of the Canadian Parliament for the proposed "Statute of Westminster." In moving it, Premier Bennett gave a detailed explanation of its provisions, the steps which had led up to them and the reasons for them. Mr. Lapointe for the Liberals cordially supported the resolution, but took the opportunity to claim for the previous Liberal administration credit

Canada

for most of the spade work that had made the passage of the "Statute" possible. He also advocated that Canadian appeals to the Privy Council should be abolished and that steps should be taken for Canada to secure the power to amend her constitution by her own act. Mr. Bourassa supported the resolution and also the bulk of Mr. Lapointe's additional suggestions, and it is evident that, although Premier Taschereau remains unconverted, there has been a notable change of sentiment in Quebec about the desirability of Canada's acquiring full control of her own constitution. Mr. Bennett was non-committal about Privy Council appeals, but he promised to call at some convenient date an inter-provincial conference to discuss ways and means whereby Canada should secure for herself the power of constitutional amendment.

Before the close of the session, Mr. Bennett was able to announce the terms of a new commercial treaty concluded with Australia to replace the old pact made by the King Government. It was the result of protracted negotiations lasting nearly a year, and the result is a comprehensive exchange of mutual preference instead of the very narrow list covered by the former treaty. Canada secures by it the benefit of the British preferential rates on 415 out of the 433 schedules of the Australian tariff and in addition the intermediate rates on six items or parts of items. Furthermore, on lumber, newsprint and canned salmon, which are of great importance to Canada's export trade, Australia has adjusted her tariff in order to give Canadian producers a greater margin of preference. By way of return, Canada accords to Australia either her British preferential tariff rates or greater margins of preference on some 28 items or parts of items; the chief benefits to Australian producers should accrue from the very substantial preference now given on raisins, apricots and other fruits and wines. The terms of the agreement have been enthusiastically received in British Columbia, where a variety of interests will profit by them, but they have

Parliament and the Depression

received a chilly welcome from the grape-growers and wine-makers of the Niagara peninsula, who have protested to the Government that their industry will be adversely affected by the competition of Australian wines. One novel and interesting feature of the treaty is a clause providing that abrogation need not necessarily follow the emergence of difficulties arising out of one or two items. It is agreed that, if one country discovers the importation of some product under the terms of the treaty to be prejudicial to one of its own domestic industries, it can give notice of the fact to the other, and if within three months after receiving the notice the latter country has not removed the difficulty, then automatically the product concerned will bear the general tariff rate applicable to it until the notice is withdrawn.

During the last month of the session, interest on Parliament Hill was centred in the proceedings of a special committee of the Commons which investigated the activities of a company called the Beauharnois Light, Heat and Power Corporation. This company had organised a huge power project east of Montreal which involved the construction of a canal between Lake St. Francis and Lake St. Louis and the diversion of the waters of the St. Lawrence into it; as the river at this point was within the domain of Quebec, a lease of the water powers was secured from the provincial government of Quebec, but a permit for the diversion of water from the main channel of the St. Lawrence had to be secured from the Federal Ministry, which has jurisdiction over navigation rights. After granting this permit, the King Government was subjected a year ago to strong criticism by the Progressive group, who alleged that valuable water powers belonging to the nation had been handed over to private exploiters for a mere song, and that the public interest had been inadequately protected. Then, about the middle of this session, Mr. Gardiner, the Progressive leader, again raised the issue and demanded an investigation of the operations of the corpora-

Canada

II. THE WEST

WESTERN CANADA is at war—fighting against drought and low prices and world-wide economic nationalism. It has even its devastated areas.

The drought—though happily broken in July—was in May and June the most extreme that has been experienced for years; in fact there has probably never been such a drought since any substantial area of land first came under the plough in the western provinces. The high winds which accompanied the dry weather have caused the soil to drift to an unprecedented extent. In many places, particularly in southern Saskatchewan, one can see five-foot fences covered as though with snow, so that the cattle can walk over the top. Where the soil is shallow it has in certain places been blown away right down to the "hard-pan," leaving only pebbles and stones, some of them as large as one's head. This condition was indeed so bad in certain parts of southern Saskatchewan towards the end of June that they looked like the Sahara, and there were often dust storms in which one could not see ten feet ahead. This utter desolation is not, however, very widespread. In a drive of 800 miles in Saskatchewan, taken towards the end of June with the express intention of seeing the worst areas, not more than forty or fifty miles were through absolutely devastated country, and even there the recent rains were beginning to produce signs of green, although in many cases the growth mainly consisted of the ever-ready weed. Further, soil-drifting is to a large extent the result of over-intensive cultivation, and it is a difficulty which has in years gone by been successfully dealt with in the west of the United States, so that it need not be regarded as in any sense an inherent and inescapable handicap to western farming, especially as, except in a few districts, the soil is so deep that the drifting does no permanent injury.

The West

A visit to a farm in the worst district left one with mixed feelings. We found the farmer puzzled, nonplussed and uncertain what to do. His wheat crop had been ruined and his only hope for the current year was to endeavour to grow fodder for his animals ; and he had to consider how he should treat his soil in order to get a binder which would lessen the chance of the drifting starting again. Notwithstanding his plight, however, one felt that his future was by no means hopeless. The locality usually produces good crops and, as a farmer whose crop has been spoilt this year put it : " My average crop for the last twenty years has been 22 bushels an acre. I am all right." Another thing which struck one on this particular farm was that the children were as healthy and well-fed as one could wish. They had sufficient animals to provide for their immediate wants, and one felt that, however sharply the winds of economic distress might blow, these people were free from the two worst ills—unemployment and starvation. Anyhow, the Government will see to it that this farmer gets grain for seed and fodder for his cattle, and with these he can struggle along until the next harvest, which by all the laws of averages, and according to the well-attested cycles of moisture in the west, should be a good one. A year hence, with anything like a reasonable improvement in prices, his position may be vastly different from what it is to-day.

Meanwhile adversity, as usual, is teaching useful lessons. Much has been learnt in the last two years about how to live off the farm. A loan company agent, endeavouring to reckon the cost of growing wheat, took into account an amount for the subsistence of the family. " They are learning," he said, " to live off the farm. There are families near here whose cash outlay in groceries for a whole week would not be \$1.50. All that they buy is tea and sugar." This tells a story which is for the moment serious from the point of view of the merchant and manufacturer, but it certainly brings down the cost of growing wheat. What this

Canada

cost actually is, it seems, however, almost idle to conjecture. In the first place, all calculations based on an assumed yield would be knocked on the head if the yield were to prove higher or lower. In the second place, there is so little agreement about the cost of the different elements which enter into any estimate of wheat growing that completely different figures are given by different authorities who are all presumably competent. This, however, may be said. Dollar wheat, which two years ago would have been regarded as a calamity, would now be looked upon as a bonanza price, and even 75 to 80 cents would to-day be considered to give the farmer a chance. Incidentally it should always be remembered that the price quoted for wheat is the price at the head of the Great Lakes, and that the price to the farmer is that amount less freight and elevator charges, which sometimes run to nearly 20 cents.

One naturally tries to gauge the temper of the western farmer in his present difficulties, and it is necessary to generalise from a few instances. A foreign farmer near Leduc, south of Edmonton, had leased land in addition to his own farm and put in two or three times as much wheat as he did a year ago. When asked the reason for this, the answer was that prices were bad and that in order to earn as much as he did the year before he would have to produce three times the quantity of wheat. This is not mentioned as a typical instance—it is not one—but as an outstanding symptom of a morale which seems on the whole to be keeping high. No doubt, as in the army, morale is the result of a variety of causes, and one of the most important at the present moment is that there is no opportunity of running away to southern California or anywhere else in the United States, as there used to be ten years ago.

A farmer, fifty years old, comes to his banker in the autumn of 1930 saying that his crop has yielded him nothing and that he wants money to carry him over the winter—otherwise he will throw in his hand. The banker points

The West

out that if he gives up he will have no other way of "improving" himself and urges him to reconsider his decision. The result is that after a family council the farmer comes back and tells the banker that if he is given time by the bank, the family has come to the conclusion that in one way or another—by one of the daughters teaching at school, and by buying milch cows, poultry, etc.—they can maintain themselves. The banker has no doubt that they will win through.

A man from Saskatoon, at a country point nearby, is assailed by a number of farmers in distress. What, they ask, is going to be done for them? He rounds on them, tells them that their troubles are their own fault and that if they had exercised a reasonable amount of prudence in the last ten years instead of squandering their money on motor cars, radios, unnecessary farm machinery, etc., they would be quite able to "paddle their own canoes" at this moment. He tells them of a French-Canadian, from the province of Quebec, and not long in Saskatchewan, who was getting on all right. French-Canadian English is difficult to reproduce, but when the Saskatoon man asked him how he had managed it, he gave the following reply:

Before I became a farmer I was in a factory in the province of Quebec. We once had to go to see the manager and I heard him several times mention "the sinking fund." I did not know what that meant, but when I come to the province of Saskatchewan to be a farmer I say to myself—"Albert, you are now in business on your own. You are now just like a manufacturer. You must have a sinking fund." I go to the priest and I ask him: "Father, what is this sinking fund that the manager in the factory talked about?" The priest, he tells me what is this sinking fund, and I have made me a sinking fund—hay and oats in the barn, horses, cows, pigs and chickens—and my children have three meals a day and wear good clothes.

Albert's sermon apparently struck home, angry and irritated though the farmers were.

The bad prices have, of course, produced a strong

Canada

demand in various quarters for further resort to price-fixing devices. Some of our farmers would like not merely a hair but the whole hide of the dog that bit them. In the present circumstances it is not surprising that men's judgments should be upset by the urgent anxieties of the moment. In this connection it is interesting to note a leading article in the *Manitoba Free Press*, whose editorial policy is in the hands of the able and patriotic Mr. J. W. Dafoe, who has on the whole been a supporter of the aims of the Pool. This leading article says:—

The arguments being advanced in support of the creation of a wheat board, or in favour of some method of federal control of the wheat crop, are merely the most recent expressions of a perfectly consistent theory of grain selling.

Requests for government control of the wheat are supported by the assertion that, following such control this season, prices will drop considerably below the level of the previous year, and the growers and the country generally. It was on this assertion, stated in slightly different terms, that the wheat pools justified their existence when they were first organized, a belief which was maintained while the grain trade of Canada has been conducted for some seven years. Despite the failure of the wheat pools to weather the economic storms in which international business is plunged, the soundness of the theory, or belief, on which they were formed continues to be urged. The Federal Government is being requested to step in now that the pools have collapsed and do what the pools set out to accomplish. . . .

The two systems of selling are posed against each other pretty clearly, and the public intelligence will have to size them up. Open trading may be subject to many perils and dangers, but it is still operating as a commercial system. Controlled selling has broken down, or gone out of existence, accompanied by loss and wreckage; but its advocates still have arguments to demonstrate its necessity. And the important fact about the arguments is their insistence on wider application of control. A federal grain board would be the last control of all; the entire crop would go under government supervision, and Canada would find itself in the grain business. . . . If the world's economic trend is such that the production and sale of staple commodities is to pass into government control in the national interest, that is another story altogether, and one that opens up new prospects for public consideration.

The West

While this editorial does not reach any definite conclusion, having regard to the paper's past editorial policy the writer of this article considers it a fair inference that the editor believes that co-operative selling, as it is understood in western Canada, has for the moment failed. It is certainly unlikely that a convinced individualist like Mr. Bennett will want to see it re-established on its old basis.

There is one experiment, born of our existing difficult conditions, which may have far-reaching results. Some of the lending institutions have formed a farm management group and secured as its head a man who has achieved considerable success as a farm manager in the United States. The manager points out that every individual farmer is running a business in which he has to be an expert in many different lines ; that this is not the case in other businesses which have a special expert for each particular line ; that a farm manager with tact and judgment can, however, gain the confidence of the farmers under his care, and by doing something to meet the need of expert assistance obtain important results. A day spent with one of the farm managers in this enterprise was full of interest and hope. The farms were not far from Winnipeg. The farmers were in difficulties and their demeanour showed that they were glad to have someone with whom to talk things over. One of the incidental advantages of farm management, of which we saw an instance, is the protection that it gives to farmers against the high pressure salesman of machinery. Another of the farm manager's aims is to persuade the farmer not to abandon a particular line as soon as it becomes unprofitable, but, as the manufacturer so often has to do, to keep it going even though it means a loss for the time being, in full confidence that it will again become profitable.

One of the incidental advantages which the farm manager hopes will result from this system is that the western farmer will no longer regard farming as a thing at which he works for a month or two in the spring and a month or so in the autumn but as a whole-time job—in other words,

Canada

that he will come to look upon farming as a calling which, like every other calling in the world, demands attention the whole year round. In this connection it is interesting to know that more than one shrewd observer in the West remarked that they had far more well-grounded prosperity with dollar wheat than with \$1.50 wheat. With dollar wheat a farmer would have a profit, but not a large enough one to enable him to abandon every other form of production, which was the tendency in the past when the price was high.

There has been a good deal of talk about the corporation farm of ten, twenty, thirty and forty thousand acres. Statements about the success of these farms should be received with reserve in so far as results up to date are concerned, and with still more reserve as regards the future in view of the necessity of adopting more intensive forms of cultivation in order to maintain the fertility of the land. The best view in western Canada appears to be that the large family farm, somewhere in the neighbourhood of a section—640 acres—is the unit which ought to offer the best chance of success, yielding, as it does, a sufficient volume to enable costs to be kept down, and yet being sufficiently small to render possible at least a minimum of personal attention and a rotation of crops. One must at least hope that this is what the future has in store. The corporation farm, the "Kolhoz," seems to offer little in the way of a life to our western people.

This section opened with the statement that western Canada is at war. The surest guarantee of the success of the campaign is the quality of our western people. They have fought periodic campaigns before and the result has always been that the country has come out stronger, broader based and better equipped for future campaigns. After all, none of the problems of to-day is new—merely greater in extent. Those who have known the West from the beginning and who have seen it progress—perhaps not always from year to year but from decade to decade—have

The West

no fear that its progress will be arrested or that the western farmer, with the strong incentive which owning his own land supplies, will fail to fight his way through the embarrassments of the moment and come out stronger and better than ever.

Canada. 1931. July, 1931.

AUSTRALIA : MONETARY POLICY AND FINANCIAL RECONSTRUCTION

I. THE POLITICAL BACKGROUND

IN the last issue of *THE ROUND TABLE* Mr. Theodore's policy of "controlled" inflation was described. That policy was the Commonwealth Government's answer to the February committee of economists and under-treasurers, to the premiers of five States and to the bankers, all of whom insisted upon budget economies as the first step towards financial reform. The policy was embodied in three Bills—a Bank Interest Bill (now dropped), a Fiduciary Notes Bill, and a Bill to amend the Commonwealth Bank Act in respect of the note issue (commonly known as the Gold Export Bill). The first provided for the appointment of a board to make recommendations to the Treasurer concerning bank interest, which could then be altered by order of the Treasurer. The second empowered the Treasurer to issue £18,000,000 of fiduciary notes for the relief of farmers and unemployment. By the third the legal minimum gold reserve of 25 per cent. against notes was to be abolished, notes were no longer to be convertible into gold on demand, and a limit of £60,000,000 was fixed for the note issue. Further, it was provided that the Government might acquire gold from the Bank "for the discharge of the indebtedness of the Commonwealth in London." The Senate rejected both the second and third Bills on the ground that they did not provide any means

The Political Background

for dealing effectively with the financial position either at home or abroad.

The ultimate control of the currency lies with Parliament, and the Opposition has a majority in the Senate. It thus became clear that as parties now stand the Government's monetary policy could not be carried into effect. On the rejection of the Fiduciary Notes Bill, however, Mr. Scullin announced that the Government intended to proceed with its plan, and that, if the Senate again rejected the Bill after the statutory interval of three months, he would seek a double dissolution. Meanwhile, late in April, Mr. Theodore had presided over a stormy meeting of the Loan Council, at which an important decision was made "that the Loan Council is of opinion that Australia must aim at securing a balanced budget at the end of June 1934." A sub-committee of three was appointed to report to the Council, and was empowered to co-opt the services of "economists and such other advisers as it may deem fit."

Meanwhile the Government of New South Wales, with important consequences for the whole of Australia, was moving in quite a different direction. The influence of New South Wales outside its own territory is felt partly through its representation in the Federal Parliament, partly through its expenditure on the public services and partly through its share in the public debt, for which the Commonwealth has now taken over responsibility. The victory of Labour at the New South Wales elections involved the defeat of the policy of financial rehabilitation agreed upon by the State and Federal Governments in the preceding August. It meant that New South Wales would not voluntarily economise, and would strain its own credit and that of the Commonwealth to the utmost attainable limits. It meant also that the representatives of the State in the Federal Parliament would try to prevent the Government of the Commonwealth from carrying out a policy found to be unpopular in New South Wales.

Australia

At the Conference convened by Mr. Theodore in February after his reinstatement, Mr. Lang, who at the State elections had declared himself in favour of high expenditure but no repudiation, announced that his Government intended to default in its payment of overseas interest at least temporarily, and invited the Conference to adopt a similar policy for Australia. The Lang plan, which included radical changes in the currency, was advocated then and subsequently as an alternative to the Theodore plan of inflation with payment of interest overseas in full. It gained four adherents from among the New South Wales representatives in the Federal Parliament, who formed a group of their own which will oppose all government measures except to the extent of bringing about a general election, and it was advocated by emissaries from New South Wales in other States. It may be that personal and political differences between Mr. Lang and Mr. Theodore will split the party organisation in New South Wales, and even lead to the appearance of rival Labour candidates at the next Federal election. In the other States Mr. Lang and his emissaries were coldly treated by the party officials, and, notwithstanding some enthusiastic meetings, appear to have made little headway. The Lang plan was, however, adopted by the party in the State Parliament and by the State organisation. The plan was put into execution by the failure of the Government to pay interest to overseas bond-holders, which was followed by the issue of writs on behalf of the Commonwealth and the States claiming to be indemnified for the extra burden which this default placed upon the Commonwealth revenue.

Mr. Theodore's reinstatement and the resignation of Mr. Lyons were followed by the formation of a United Australia party, which included the Nationalists and some former supporters of Mr. Scullin, with Mr. Lyons as Leader of the Opposition; Mr. Latham, who had filled that office with conspicuous ability and authority, consented,

The Political Background

with characteristic public spirit, to become deputy leader. It was thought that Mr. Lyons, who had been warmly applauded for his conduct during Mr. Scullin's absence, was admirably fitted to advocate a policy of orthodox finance at a general election. The inflation policy, which may now be regarded as abandoned, was made the main issue at the State elections in Tasmania shortly after Mr. Lyons' appointment, where it was championed by the Leader of the State Opposition with the personal support of Mr. Theodore. The result was a decisive victory for the Government, the sole instance of a government which has gone to the country during the present depression being returned to power.

Such was the position in the middle of May. The Commonwealth Government was still committed to a policy of inflation and to an election on that policy. New South Wales had publicly defaulted on payments of overseas interest, and the Commonwealth, under the Financial Agreement of 1927, had assumed responsibility for these payments. The directorate of the Commonwealth Bank had set a limit of £25 million to the overdraft in Australia. This limit would be exceeded on June 30, and default was inevitable. July to December are lean months for the treasuries, and it is doubtful whether, in the absence of further central bank credit, governments would have had sufficient funds to meet their commitments. The situation was critical. Eight months after the August (1930) agreement the country was faced with a stoppage of payment because the two most important governments had quite flagrantly refused to carry out the policy implied in that agreement, and the steps taken by other governments were not adequate. Confidence in governments was rapidly waning, and the closing of the Government Savings Bank of New South Wales on April 23 was a stern reminder of the evils that would accompany a further decline in confidence. Open discussion of the effects of a Labour victory at the New South Wales election in November had

Australia

weakened the position of the savings bank in that State. The announcement of the "Lang plan" of repudiation in February, and the acute division between the Commonwealth and State Labour parties caused additional difficulties. The closing of the bank had a marked effect on the political situation. To this must be added the unfavourable reception of Mr. Theodore in the southern States, the imminence of default and the overwhelming victory of the Nationalist party in Tasmania on May 9. Mr. Scullin was forced to reconsider his financial policy.

II. THE EXPERTS COMMITTEE

THE sub-committee of the Loan Council commenced its deliberations on May 20. Having obtained the budgetary information which it sought, it had already secured the assistance of four economists and the under-treasurers of all the States but New South Wales. This committee of nine, referred to below as the experts, presented its report on May 23. The report set out the main facts of the budgetary position of the Australian governments and outlined the results of certain steps that might be taken to balance budgets. The estimated deficit for the current year (1930-31) was found to be £31 million and that for next year, after allowing for proposed economies, to be £39 million, or £41 million if revenue fell short of the estimates. Three main questions were then considered: (a) What further economies were possible? (b) What increases in revenue could be got from taxation or any other source? (c) If these failed to meet the probable deficit, what further measures were necessary?

With regard to (a), the experts took as a standard for economy the fall in the Federal basic wage since 1928. This was 20 per cent. Applying this standard to all departmental expenditure and public utilities, amounting in 1929-30 to £98 million, there was a possible economy

The Experts Committee

in 1931-32 of £20 million. The estimates submitted provided for economies of £11 million. There was consequently a further possible saving on this standard of £9 million. From pensions (old age, invalid and war), a saving of £4 million could be made, raising the total of new economies to £13 million. From taxation, it was thought that £12 million might be raised by increasing the sales tax and primage duty and from income taxes. The only remaining means of reducing the deficit was a reduction of the internal interest burden, which on June 30, 1930, amounted to £27·8 million. In common with other property incomes, this interest, except, of course, interest on tax-free bonds, had been subjected in November last to a surtax of 1s. 6d. in the pound (7½ per cent.). Additional taxation would have to be imposed upon those incomes, and that was contemplated in a Bill already before the House of Representatives. The surtax was to be raised to 3s. 6d. in the pound. The experts held that such taxation would keep up the rate of interest and render conversion operations difficult. They therefore suggested an alternative method of meeting the position. The present surtax could remain, but a reduction of 15 per cent. in the interest payable could be arranged by "an immediate conversion of government securities at a new rate of interest." Such a conversion "could only be achieved by a great patriotic movement backed by a large volume of consent on the part of bond-holders." It would be necessary for the loan to be underwritten by the banks so that bond-holders not consenting might be paid off. The experts were aware that such a transaction was technically a breach of contract, but they justified this procedure on the ground that insistence on the fulfilment of contracts to the letter, in present circumstances, "might force the debtor governments into a policy that would surely destroy the value of the bond." Only in so far as bond-holders preferred to take cash rather than to accept a lower rate of interest would there be any interference with contract. This would have been a minor

Australia

breach compared with the strong element of compulsion that was proposed later at the Premiers' Conference. A 15 per cent. reduction in the interest burden would produce a net saving of £3,000,000. The gross saving would be £4,170,000, but governments would pass on to their own debtors the reduction in rates of interest and there would be some loss of income tax. The deficit in 1931-32 would then be from £11 million to £13 million, an amount that could be met by borrowing "from current savings rather than from new bank credits." As trade improved revenue would increase and expenditure on unemployment fall until the deficit disappeared.

The experts added that borrowing to bridge the gap "will be over and above the funding of the existing short-term indebtedness, both in Australia and in London, which is so necessary to the restoration of Australian credit." But such borrowing would not be possible "until we have made honest and determined efforts to meet the interest on our existing liabilities." The plan was indeed designed to place Australia in the position of making the maximum effort to discharge her external obligations. The adjustment of internal finance, though burdensome and difficult, was a national task from which no class should be relieved. The experts had exposed the facts, enunciated a plan for restoring national finance and created an atmosphere in which very drastic, but necessary, measures could be taken.

In a brief report to the Loan Council the sub-committee recommended that the main features of the Experts' Plan should be carried out. This report, together with the experts' report, was considered by the Loan Council on May 23 and referred to a Premiers' Conference convened for May 25. Political differences were quickly submerged, and with one important exception the Conference reached an agreement upon the main issues involved. After the first two days it became clear that a complete plan might be worked out on the following basis :

The Question of Compulsory Conversion

1. A cut of 20 per cent. in all adjustable government expenditure as compared with the year 1929-30.
2. A reduction of $22\frac{1}{2}$ per cent. in the internal interest burden through a huge conversion operation.
3. A reduction in bank interest rates, including those of trading banks and savings banks.
4. Increased Commonwealth taxation to the extent of about £7.5 millions.
5. Some measure for the reduction of interest on private mortgages.

III. THE QUESTION OF COMPULSORY CONVERSION

THE Commonwealth Treasurer on the first day of the Conference recommended the conversion of the outstanding public debt in Australia to a new stock with an average rate of interest of 4 per cent. The average rate of interest on the internal public debt at June 30 was £5. 5s. 5d. per cent., and a reduction to £4 per cent. would amount to nearly 23 per cent. This figure was arrived at by including the 15 per cent. proposed by the experts, and taking in an additional $7\frac{1}{2}$ per cent. in lieu of the surtax of $7\frac{1}{2}$ per cent. imposed in November. This conversion loan was to be underwritten by the banks, and "holders of existing stocks and bonds not wishing to convert were to be paid off." This proposal was considered by a sub-committee of the Conference and representatives of the banks. At that meeting the bankers indicated their general approval of the conversion of the debt to a lower rate of interest, but declared that it was impossible for them to underwrite such a conversion loan. Without the co-operation of the banks it would be impossible to pay off the bond-holders who did not convert, so the Conference altered the proposal of the experts. It was decided to ask bond-holders to accept a reduction of $22\frac{1}{2}$ per cent. in the rate of interest, and to exempt those who were willing to convert from the present surtax of $7\frac{1}{2}$ per cent. and from any fresh taxation. An additional income tax of 25 per cent.

Australia

was to be imposed on all securities not converted into the new loan.

This decision roused considerable controversy outside the Conference, and there were strong protests against the element of compulsion. This point of view was embodied in a letter sent to the Conference late on the afternoon of May 29 by the Leaders of the Opposition—Messrs. Lyons and Latham. They expressed general approval of the original proposal for a voluntary conversion, but remarked that "the proposals now being discussed are radically different. They are proposals for a compulsory, not a voluntary, reduction of interest on government loans. This is repudiation and default. The effect of this change of policy is already obvious upon the stock exchanges of Australia and abroad." Over the week-end there was much private discussion of the letter, and the Conference received it on the Monday without discussion. Important developments followed. To have produced a plan which the Federal Opposition could not support might have led to its rejection by the Senate. It was, therefore, necessary to endeavour to secure the co-operation of the Opposition. The Commonwealth Government was prepared to return to the original proposal of a voluntary conversion if provision could be made for paying off the bond-holders who did not convert, or, alternatively, if measures could be taken later to force them to make the same sacrifice as those who did convert. Since the banks were unable to underwrite the loan the first alternative was out of the question. It now became a matter of securing an agreement upon the second alternative, and during the week efforts were made to devise a formula upon which the Leaders of the Opposition would co-operate with the Government in carrying out the plan for a voluntary conversion. By the end of the week sufficient progress had been made to justify an invitation being sent to the Leaders of the Opposition to attend the Conference on Monday, June 8.

At this meeting Mr. Lyons sought an assurance from

The Question of Compulsory Conversion

the Prime Minister that the policy of inflation would be abandoned. To this Mr. Scullin replied : " If a satisfactory plan can be secured, it should be the financial policy of every government." Mr. Lyons then sought a further assurance that any agreement entered into at the Conference would be acted upon and not treated like the August agreement. To this Mr. Scullin replied : " The agreement of the Government on that point is that the action taken must be on a complete plan, and all action must be simultaneous and, if possible, that all the Acts be proclaimed on the same date." Having received these answers Mr. Lyons then proceeded to offer the full co-operation of the Opposition in bringing into operation the whole plan, including a voluntary conversion of the public debt. He was supported by Mr. Latham, who dramatically summed up the position as follows :

We are met and confronted with an unprecedented position, and unprecedented steps must be taken to deal with it. We now make an unprecedented offer. We, as an Opposition to a Government, offer to come in with the Government wholeheartedly, *bona fide*, with all our energy, enthusiasm, and ability, to try to make a particular proposal a success.

Whilst the Leaders of the Opposition would not commit themselves to a compulsory conversion of the internal debt, they made it clear that special action would be necessary to secure a sacrifice from bond-holders if any were unwilling to convert their holdings. At a meeting between the Government and the Opposition on the following morning, an agreement was reached in the following terms :

The Conference, including the Leaders of the Opposition in the Federal Parliament, having most carefully considered the financial position of the Commonwealth and the States, is unanimously of the opinion that, to prevent national default in the immediate future and a general failure to meet government payments, all expenditure, including that upon governmental salaries and wages, pensions and other social services, and interest on government securities and other interest, must be substantially reduced.

These measures, drastic as they may appear, are the first essentials to the restoration of prosperity and the re-employment of our workless people.

The necessary sacrifice is due to national inability to pay, and it must, therefore, be shared by all.

The Conference has accordingly provided a conversion plan under which bond-holders may make their contribution to the general sacrifice by themselves accepting the lower rate of interest which the existing position makes unavoidable.

The Conference, therefore, appeals to all sections of the people to recognise the position, and in the interests of the nation to accept the sacrifices which are involved.

A National Appeal Executive, consisting of the Prime Minister, the Leader of the Opposition, and the Chairman of the Commonwealth Bank Board, is appointed by the Conference to direct the conversion campaign.

To this Mr. Lang objected, on the grounds that it did not contain a specific pledge that definite action would be taken against the bond-holders failing to convert their holdings. He supported the voluntary conversion, with the following qualification :

The Government of New South Wales is prepared to subscribe to the resolution now before the Conference, subject to the following distinct limitation : That the Government of New South Wales shall not be obliged to take the necessary steps towards the reduction of 20 per cent. in all adjustable government expenditure as compared with the year ended June 30, 1930, including all emoluments, wages, and salaries by the governments whether fixed by statute or otherwise, unless and until the conversion loan shall have been successfully and effectively carried out.

Having reached agreement on this point, the Conference quickly completed its work. The Commonwealth Government had submitted its budget proposals to the Conference during the discussions with the Leaders of the Opposition. They embraced an average cut of 20 per cent. in salaries and wages on the 1929-30 standard. To achieve this, low incomes were to be cut 18 per cent., middle incomes 20 per cent., and higher incomes 25 per cent. Old age pensions were to be reduced from £1 to 17s. 6d

The Question of Compulsory Conversion

for destitute persons, and to 16s. for others. Soldiers' pensions were to come down the full 20 per cent. except in the case of soldiers out of employment. The Government's taxation proposals were equally drastic. By raising the sales tax to 5 per cent. it would secure additional revenue of £4 million, by increasing the primage duty to 10 per cent. £2·4 million, and by increased income tax £1·5 million, giving a total new taxation of £7·9 million. From this must be deducted the yield of the special tax of 1s. 6d. in the £ on property income, amounting to £400,000. The net increase in taxation was, therefore, £7·5 million.

For the States, with the exception of New South Wales, the full 20 per cent. cut in expenditure according to the experts' proposals was agreed upon. In some cases, owing to the reduction of services, the estimated decline in expenditure in 1931-32, compared with 1929-30, will be over 30 per cent. For New South Wales Mr. Lang declared that he must look to the higher incomes for almost all the additional savings on salaries and wages. He proposed to appeal to the higher salaried officers to reduce their incomes to £500 a year. "Should they fail to respond to the Government's appeal to their patriotism, we would then have to introduce legislation similar to that which the Conference proposes should be brought in to compel the tax-free bondholders to convert." It would be of no avail to attempt to persuade Mr. Lang that there were substantial differences in the two cases.

According to the estimates placed before the Conference, the deficits of the Governments in 1931-32 will be as follows: Commonwealth, £4·38 million; New South Wales, £5·41 million; Victoria, £1·31 million; Queensland, £·76 million; South Australia, £1·50 million; Western Australia, £1·20 million; and Tasmania, £·09 million, making a total of £14·65 million.

Before the Conference disbanded, the following resolution was passed: "The representatives of each govern-

Australia

ment present at this Conference pledge themselves to give effect promptly to the whole of the resolutions agreed to at this Conference." It was proposed to embody these proposals in a Commonwealth Act for a conversion loan, a Debt Conversion Agreement Act signed by all the States and ratified by the Federal Parliament and the State Parliaments, a Financial Emergency Act embodying the cuts in expenditure, a Bill empowering trustees to convert their holdings of Commonwealth stock, and a Mortgage Relief Bill by the States. The last mentioned is designed to provide machinery whereby mortgagors could appeal to have their rates of interest reduced by $22\frac{1}{2}$ per cent.

IV. A RECORD OF ACHIEVEMENT

THE Conference thus achieved three important things.

1. It has taken the problem of financial rehabilitation out of the arena of acute party controversy. This result is perhaps the most striking. It should go far to make the whole plan a success, and in particular to bring about a conversion of a very large proportion of the internal debt. About 40 per cent. of the debt is held by financial institutions—banks, savings banks, trustee companies, insurance companies—and most of this will be converted. If 60 per cent. of the remainder is converted there will be a balance of 25 per cent. outstanding, a result which should convince the outside world that Australia is prepared to make the necessary sacrifices to restore her finances and meet her external obligations. With the sanction of the holders of 75 per cent. of the debt there could be little objection to the application of compulsion to the remainder. The circumstances are exceptional and the operation is possible only because the seven governments of Australia have agreed to it. This agreement is embodied in a measure

A Record of Achievement

similar to the financial agreement of 1927 made under section 105A of the constitution.

The plan has been assailed by two main classes of critics. In the Labour ranks there is opposition to the reductions in pensions and salaries; in Nationalist circles criticism has been directed rather to the blow struck at the institution of contract by the conversion proposals even in the modified form in which they were adopted. Critics fear not only that this agreement may serve as a precedent for like raids upon the public creditors whenever future Governments find themselves in difficulties, but also that the immediate result of the plan will be widespread refusal throughout the community to honour legitimate obligations. To the first of these fears it is some answer to urge that only a national emergency like the present could secure the consent of every government and parliament in Australia, without which such action would be impossible. So far as the second fear is concerned, a great deal will depend on the good faith with which the plan is carried through in the community at large. The risk attending default, the only alternative, would certainly be much greater and far more grave. It is useless to ignore the situation in which the plan was promulgated. The experts found that national income had fallen from £650 million before the crisis to £485 million in the current year. They estimate a further fall to £450 million next year. Loss of income from exports, unemployment at home, and a sudden fall in domestic prices, are the main causes of this decline in income. At this lower level of income the burden of fixed money claims would be intolerable, and the reduction in interest on the internal public debt appears to be the forerunner of an all-round reduction in these fixed money claims. More than half of the fall in the rate of interest is a mere adjustment of money payments to a lower level of prices, and involves no loss of real income. The rest is a contribution from the bondholder to the loss of national income. To those who reject the plan on grounds of unwarranted

Australia

interference with contracts, its advocates reply that there is strong economic justice in the plan, and that what is economically sound and just should not be considered morally wrong.

2. The second achievement of the Conference is the abandonment of the policy of inflation, which had become a leading political issue. It is a remarkable change of front for the Commonwealth Government. To finance the remaining deficit some creation of additional bank credit may be necessary, and to this extent there will be a continuance of inflation. Such inflation will, however, be carried out under the strict control of the Commonwealth Bank, and with the prospect of balancing all budgets in the near future.

3. Finally, the Conference has definitely set Australia on the road to deflation, to an adjustment of her internal prices and costs in conformity with the fall in overseas prices. It has been objected that such a policy will reduce the spending power of the people and increase unemployment. This is a short-sighted view. A serious illness may be cured by surgical treatment, and the patient is naturally debilitated by the treatment, but the end justifies the means. The process of deflation in Australia is necessary to reduce costs and restore the margin of profit in private industry. With a moderate adjustment in industrial costs some secondary industries will be able to enter the export market, and new industries will be established to compete with imports. It is only in this way that Australia will be able ultimately to absorb her present unemployed. If the process of adjustment involves an immediate increase in unemployment it should soon be followed by an expansion of industry and the absorption of the displaced workers.

As an indication of the readiness of political parties to agree upon the necessary measures to implement the Conference plan, the quick passage of the modified Gold Export Bill by the Federal Parliament may be mentioned. This Bill provided for a reduction of the gold reserve against

Party Reactions

notes from 25 per cent. to 15 per cent., for the restoration of the former ratio by 1934, and for the export of £5,000,000 in gold to meet Treasury Bills falling due on June 30. No objection was raised to this measure in the Senate.

The Commonwealth Savings Bank has reduced rates of interest on deposits by 1 per cent., and other savings banks will follow its example shortly. Trading banks have reduced their deposit rates by 1 per cent., and rates on advances are in general being reduced by the same amount.

V. PARTY REACTIONS

IN the Federal Parliament and in those States where Labour governments are in office, *i.e.*, New South Wales, Victoria, and South Australia, it was expected that the Conference proposals would be received with some opposition by the rank and file of the Labour party. The Federal executive* of the Australian Labour party met at Canberra on June 18 and 19, and after much controversy passed the following resolution by a narrow majority:

The executive of the Australian Labour party is opposed to that part of the plan which involves reductions of wages, pensions, and social services. The executive recognises that the Scullin Ministry's monetary policy has been thwarted by the banks and the reactionary Senate, and that widespread industrial stagnation and unemployment have been created and have led to a collapse of national finances. The executive is convinced that a Nationalist Ministry as an alternative to the present Labour Ministry would be abhorrent to the workers and disastrous to the country. It is of the greatest importance that the Labour Ministry should remain in office during this time of crisis to prevent the enemies of Labour from enforcing a ruthless policy of aggression against the hard-won rights of the workers. The restoration of the workers' conditions will depend upon the return of Labour at the poll with a majority in both Houses of the Commonwealth Parliament.

* The executive of the party is the body appointed at the annual conference of branches and affiliated unions. It is naturally more radical than the caucus composed of the Labour members of both Houses of Parliament.

Australia

Meanwhile, Mr. Scullin had pushed on the preparation of the necessary legislation, and had on June 18 introduced the Debt Conversion Agreement Bill. On the same day Mr. Theodore announced the budget changes involved in the plan. Approval by the party executive was thus anticipated, but Mr. Scullin could not have expected such a large minority in both the executive and the parliamentary caucus. Two ministers resigned, and when a vote was taken on the Debt Conversion Agreement Bill no less than 15 Labour members voted against it, and five others were "paired" among the "Noes." In South Australia Mr. Hill proceeded with his legislation despite opposition from the State executive of the party. In Victoria Mr. Hogan was confronted by a hostile party executive, which declared its complete opposition to the plan, and threatened Labour members who voted for it with a refusal of endorsement at the polls in the next election. Mr. Hogan ignored this decision, and proceeded with his legislation, though against much latent opposition in his party, which agreed to the plan by 22 votes to 11. The decisions of the State executives of the party in South Australia and Victoria, supported by the strong minority in the Federal executive, may yet lead to a serious split in the Labour party. In New South Wales Mr. Lang's first act was consistent with his proposal to secure all his economies in salaries from the higher salaried officers. On June 22 he had conferred with the Prime Minister and the Premier of South Australia, who with him had been appointed a sub-committee at the Premiers' Conference to consider: (a) the withdrawal of the Commonwealth writ against New South Wales; (b) the opening of the Government Savings Bank; and (c) the return of New South Wales to the Loan Council. Little has been made public concerning these conversations, but there were difficulties in restoring all the departments of the Savings Bank, and it must be assumed that the Conference failed. Thrown on his own resources, Mr. Lang submitted to Parliament a Bill for emergency taxation

Party Reactions

commencing with 1s. in the £ on wages and incomes from £200 to £260, and rising to a flat rate of 5s. on incomes of £520 or over. The Bill passed the Lower House on June 26 and was rejected by the Legislative Council on June 29 by a large majority.*

All the States except New South Wales have now passed the Debt Conversion Agreement Bill, and the other measures will shortly be submitted to the Parliaments. The Commonwealth has passed the Debt Conversion Bill providing for the reduction of $22\frac{2}{3}$ per cent. in the interest on the internal debt. Bond-holders are to be given 14 days from the proclamation date in which to record their dissent. A successful conversion, as agreed upon at the Conference, will restore the finances of the Commonwealth and five States, and no difficulty is anticipated in financing deficits from loans or bank credit. The Commonwealth budget will be beneficially affected to the extent of approximately £4,000,000 by the remission of interest on the war debt under "the Hoover announcement." The deficit will then be only £1,400,000 for 1931-32, as compared with an estimated deficit of £20,400,000 in the figures submitted to the experts in May. Such is the result of bold measures applied without regard to political consequences, and supported by the generous help of the British Government in agreeing to forgo temporarily both principal and interest on the war debt.

Australia.

July 2, 1931.

* At the time of writing (July 2) Mr. Lang has reverted to the legislation in force last year for the relief of unemployment and economy. The tax of 1s. in the £ for relief of unemployment has been re-enacted by the House of Assembly together with the Bavin Administration's Act reducing public service salaries by $8\frac{1}{2}$ per cent.

Australia

POSTSCRIPT.

The Financial Emergency Act, giving effect to the agreed proposals for economy, came into force on July 20. On July 10 the Treasurer introduced the budget. He showed an accumulated deficit on June 30 of £21,050,000, of which £10,757,000 was incurred in 1930-31, including £3,834,000 of interest on New South Wales loans which had been paid by the Commonwealth. For 1931-32 he budgeted for a deficit of £5,176,300, but this would be reduced to £1,148,300 by the remission of war debt service under the Hoover plan. Increased income tax, super tax and sales tax, and new primage duties, would together yield £9,800,000, but total revenue from taxation would be about the same as in 1930-31. Prospective savings totalled £8,500,000. An attempt by the Opposition to grant only three months' supply was defeated by 34 votes to 19.

The New South Wales Government was forced to appeal to the Loan Council, on July 20, for an advance of £500,000 to meet civil service salaries and wages for July. The Council made its help dependent on the following conditions: (1) the State to assume responsibility for the payment of interest on the public debt; (2) the State to rejoin the Loan Council; and (3) legislative effect to be given in New South Wales to the decisions of the Premiers' Conference. On July 28 Mr. Scullin announced that Mr. Lang had accepted the conditions, but the Loan Council refused to advance the money until the rehabilitation plan had actually been given the force of law in New South Wales, and on August 6 salaries totalling £270,000 were withheld from State servants, including teachers and police. Meanwhile interest on the State's overseas debt amounting to £632,000 due on July 31 had been paid by the Commonwealth. On July 30 Mr. Lang introduced a Bill to reduce all public salaries to a maximum of £500 a year. The Legislative Council substituted a sliding scale of reductions, and on August 7 a compromise Bill with a sliding scale ranging from 8½ per cent. on salaries of £200 a year to 33½ per cent. on salaries exceeding £1,500 passed both Houses. Thereupon the Loan Council agreed to authorise the advance of £500,000, Mr. Lang's request for £2,000,000 for August and £1,000,000 for September being held over.

By the end of July all the parliaments had passed the Loan Conversion Bill, and on August 10 the conversion campaign opened under a National Appeal Executive consisting of Mr. Scullin, Mr. Lyons and Sir Robert Gibson. A period of 21 days was allowed for notification of dissent, extended to six weeks for holders absent from Australia. The conversion does not apply to loans raised outside the Commonwealth. The Commonwealth Bank immediately converted its holdings, which amounted to £57,000,000. On the second day of the campaign the Prime Minister announced that £150,000,000 had already been converted.—EDITOR.

SOUTH AFRICA

I. THE SESSION

IN an earlier article* an account was given of the position of parties in the Union, of the chief features of the first part of the 1931 parliamentary session, and of the main points in the general and the railway budgets. The prediction was hazarded that the session would end early in June. The prorogation, in fact, took place on June 6.

The last part of the session was, naturally enough, taken up mainly with the discussion of the budget and of the Government's financial measures. The clouds driven up by the economic blizzard hung heavily over the scene. Before the session ended the Opposition were able to adduce evidence in support of their contention, which in fact the Government's spokesmen at that stage did not deny, that the revenue estimates would prove to be over-optimistic, and that on both the general and the railway accounts the year would probably end with deficits a great deal larger than had been originally foreshadowed. The financial gloom still remains unrelieved, and in speeches made since the prorogation ministers have been hinting at further economies and railway "cuts." The presentation of next year's budgets promises to present most unenviable tasks.

At the root of the country's troubles is, of course, the effect of toppling world prices on the position of its primary producers, and during the last fortnight of the session the

* THE ROUND TABLE, No. 83, June 1931, p. 672.

South Africa

Government came forward with yet another proposal designed to assist a section of the farming community—in this case the maize growers, whose industry is of fundamental importance for most of the Orange Free State and for much of the Transvaal. This proposal, which has passed into law as the Mealie Control Act, is an interesting experiment in agricultural economics. In essence it is an attempt to secure for the producers a price above the world price, despite the existence of a surplus of production which has to be sold on the world market. South Africa's internal consumption of maize may be estimated to be, roughly, 12 million 200-lb. bags annually. In good years the production is anything up to 25 million bags; last year it was certainly not far short of that. This year, owing to drought conditions, it will probably be about 15 million bags, leaving 3 million bags for export. Now, at current world prices the export price of maize for the South African producer works out at about 3s. a bag—for him an entirely unremunerative sum—and it is this figure which would, in an uncontrolled market, determine the price that he would receive. The aim of the Government's policy is to secure for the farmer a price of about 7s. 6d. a bag. To this end they have arranged, by means of a limited government guarantee, that the Land Bank should give an advance of 7s. 6d. a bag in respect of maize sold through co-operative societies. This, however, in itself would not be sufficient to secure the object intended, for the majority of the producers, and especially the large producers, have hitherto fought shy of the obligations of membership of the co-operative societies, and have preferred to sell through private traders. There is the danger that the co-operative societies might be left with the whole burden of the exportable surplus, and with the loss contingent on the low world prices prevailing. This the Mealie Control Act is designed to prevent. It lays it down that all purchasers of one hundred or more bags of mealies a

The Session

month in the course of trade must hold for export a certain proportion of their purchases, in accordance with a quota to be fixed by the Minister of Agriculture before the end of August. Thus, it is contemplated, the burden of the surplus will be shared, and producers generally will be assured a price approximating to that of the Land Bank advance, with no danger of loss through the inability of the co-operative societies to realise the amount of that advance. The home consumer is of course deprived of the benefit of the low world price, but in such matters he is the last to be considered.

This legislation is admittedly experimental, and almost certainly temporary. It was hastily drafted, and was rushed through a weary House. Various flaws have already been exposed. Pending the fixing of the quota, the market is disorganised, and the possible effects of an error of judgment in that determination give cause for much anxiety. If the quota figure is placed too low, the purpose of the Act will be partially defeated; if it is placed too high internal prices will rise, and far-reaching repercussions may result. The minister has taken on himself no easy task.

So much for economic questions. For the rest, the most important issues that occupied the attention of members were hardly, if at all, debated on the floor of the House. The Joint Select Committee of Senate and Assembly continued its examination of the Prime Minister's Native Bills*—its report was merely to the effect that it had not completed its labours. It will probably be given the opportunity of doing so as a commission during the recess. If so, the Native issue will loom large during the 1932 session, perhaps entailing an early general election.

The provincial problem† has also been casting a shadow of fluctuating intensity over the parliamentary scene.

* THE ROUND TABLE, No. 78, March 1930, pp. 418-19; and No. 79, June 1930, pp. 644-5.

† THE ROUND TABLE, No. 73, December 1928, pp. 206-210.

South Africa

It is finance that is bringing this issue to a head. The Provincial Councils, notably those of the Free State and the Transvaal, are again in difficulty. They cannot pay their way. Some revision, at least of the financial relations, is imperative. It is clear, however, that the Government would like to seize the opportunity of dealing with the problem in its wider aspects as well. The provincial system is, of course, a constitutional makeshift, based on a compromise, which was, perhaps, inevitable at the time of union, but which has not been able to secure for itself the roots of permanence. It is significant that while the Nationalist party, when in opposition, stoutly championed provincial rights, Nationalist ministers have veered increasingly towards abolition of the system. It is clear that to-day the Cabinet as a whole is ready to follow that course; it is not so clear that it envisages the necessity of developing an adequate system of local self-government, more especially in the rural areas, to take the place of the Provincial Councils when they disappear. Its general tendencies are, in fact, rather towards centralisation and bureaucracy and "administrative lawlessness."

But the Nationalist party as such is still far from being abolitionist, and it is probably because of this fact that early in the session the Government approached General Smuts with the request that the Opposition should participate in a conference for the formulation of an agreed provincial policy. The South African party has in the past been much more inclined to favour provincial reform than the Nationalists—for that reason it might have been expected to welcome such an invitation. After long consideration, however, it decided to reject it. The chief opposition to acceptance came from the Natal members, who, with one exception, belong to the South African party, and constitute a solid and somewhat distinctive bloc within the party. Natal favoured federation rather than unification at the National Convention; it has remained sturdily federationist throughout. It still prides itself

The Session

on its specifically Natal point of view. It is predominantly British; it is geographically isolated; it is acutely sensitive to any impairment of its individuality. Throughout it has clung to its Provincial Council, hoping that it might yet grow to be a State parliament in a federal South Africa. And when, a few years ago, these feelings showed signs of weakening under pressure of the unpopularity of provincial taxation, the flag controversy came along to confirm and strengthen them. For a time Natal became far more British than Great Britain; its determination not to be swamped by the rising tide of what it regarded as anti-British secessionist nationalism was intensified, and the Provincial Council stood out more than ever as the palladium of its distinctiveness.

It is, therefore, not to be wondered at that Natal should have taken fright at the sinister intent which seemed to lurk in the Government's invitation to a provincial conference. But it was not Natal alone that took fright. For the proposal came at a time when the country as a whole was having its attention directed to those centralising tendencies of the Government's policy, to which reference has been made above. Several of its measures, both of minor and of major importance, during the last two sessions of Parliament, have indicated those tendencies. Many people, who had been critical of the provincial system in the past, became apprehensive of the prospect of a further restriction of local liberty. It was clear that a revision of the provincial system meant, as far as the present Government is concerned, merely centralisation and not a new and better system of local government—and, in the outcome, the whole of General Smuts's parliamentary party supported him in declining the invitation to any conference in which abolition would figure on the agenda. The Government has, therefore, been left to deal with the problem by itself. The indications are that it will tackle merely the financial aspects, leaving the constitutional position substantially unaltered.

South Africa

More effective than anything else in hardening the opposition to any change in the provincial system which would lead to centralisation was the Higher Education Control Bill referred to in a previous article.* In that Bill, it will be remembered, the minister sought to increase his powers of financial control over universities and technical colleges. It was drafted in such a way that it would have been open to him to use those financial powers in order to force upon the institutions otherwise unacceptable policies in regard to bilingualism and the barring of oversea appointments. The Bill was vigorously attacked in Parliament, notably by General Smuts and J. H. Hofmeyr. The fight which the Opposition put up attracted much more attention outside than educational questions usually do. Certainly also the minister's desire to increase his authority in relation to institutions of higher education, with the prospect of that authority's being used in a manner unacceptable to a considerable section, had the effect of strengthening the feeling in favour of retaining through the Provincial Councils some measure of local control over other branches of education. As for the Bill itself, the fight put up by the Opposition was not without effect. Amendments were secured which bring under parliamentary control powers which would otherwise have been exercisable at the minister's arbitrary whim. Partly for that reason, partly, also, because of the vigour of the criticism evoked during the discussion, it is improbable that, for some time at least, the enactment as finally passed will be used for purposes other than of a specifically financial character. But even so it trenches far too drastically on the sound principles of university autonomy, and the universities will doubtless look to the Opposition to carry out their pledges to repeal it, as soon as they are in a position to do so.

* THE ROUND TABLE, No. 83, June 1931, pp. 677-8.

Statute of Westminster and Privy Council

II. THE STATUTE OF WESTMINSTER AND THE PRIVY COUNCIL

ON April 14 the Prime Minister introduced a motion into the House of Assembly approving the draft clauses and recitals adopted by the 1930 Imperial Conference for inclusion in the Statute of Westminster. The Assembly, which had already discussed the contents of these clauses on a previous occasion, confined itself in the short debate that followed to one main issue. There was, indeed, some reference on the part of Nationalist speakers to the so-called "right of secession," but the Opposition did not allow itself to be drawn. The issue referred to was raised by General Smuts, who moved as an amendment that the words "on the understanding that the proposed legislation will in no way derogate from the entrenched provisions of the South Africa Act" be inserted in General Hertzog's motion.

Those not conversant with South African politics will probably fail to understand the significance of this amendment. It obviously has no legal force, since it is not to be included in the Statute of Westminster itself. It is, in fact, the retort of the House of Assembly to an agitation for the power to get rid, by a bare majority, of clauses 35 and 152 of the Act of Union entrenching the native franchise of the Cape Province. Those clauses, as well as clause 137, which safeguards the rights of our two official languages, can only be repealed or altered by a two-thirds majority of both Houses sitting together.

Some time before the Prime Minister left for the last Imperial Conference, a prominent Nationalist wrote a series of articles designed to prove that the Parliament of the Union, having become a "sovereign body" as a result of the declaration of the 1926 Imperial Conference, could be bound by no instrument limiting its powers, and that it could, therefore, repeal the constitution given it

South Africa

by the British Parliament and substitute one nearer its heart's desire, with the "entrenching" stipulations omitted. The matter was taken up by the Cape Nationalist Congress, which asked the Government to appoint a committee of experts to report upon the subject. General Hertzog categorically repudiated, at the time, this ingenious method of depriving the Cape native of his vote. Now, in his reply to General Smuts' amendment, he argued the point more fully. The gist of his argument was that our Parliament cannot destroy the instrument which created it and by virtue of which it performs its functions. He did not, therefore, appreciate the utility of General Smuts's amendment, but in order to achieve unanimity he accepted it, whereupon the House of Assembly passed the amended motion without a dissentient voice, grateful, in the Prime Minister's words, that we have now come "to finality with regard to our constitutional freedom."

During the course of the debate one of General Hertzog's followers also raised the question of the Judicial Committee of the Privy Council and its position in our judicial system. The Prime Minister replied as follows :—

With regard to our relation to the Privy Council we can do exactly what we like. It is merely a question of what we want or do not want. . . . I want, however, to say again that we must be careful with regard to such matters. It is a matter which I would like to be considered first of all, and it can do no harm, when we are doing anything final, first to consult the Bench in connection with it.

During the second week of this month the Judicial Committee caused a considerable stir in legal and political circles in South Africa by announcing that it had given a native leave to appeal in a test case which involves the validity of the Native Administration Act of 1927 as far as the Cape Province is concerned.

The origin of the case in question lies far back in the history of native landholding in the old Cape Colony. Natives were first settled in "locations" on individual

Statute of Westminster and Privy Council
tenure in the 1840's, and after that time the Cape Government systematically encouraged the conversion of communal into individual tenure among natives. Since 1854 individual ownership of real property of a specified value has been one of the qualifications of the Cape franchise.

As the years passed, native title-deeds fell into confusion. To quote the words of the permanent head of the Native Affairs Department :—

Since the natives were unable to afford the European system of conveyance and transfer with its fairly heavy dues, allotments have passed from one to another without legal sanction or record of the transactions. I do not suppose that to-day 10 per cent. of the people on the land correspond with the title-deeds. We decided to make a clean sweep and to appoint a commissioner . . . to hold a court of enquiry. He will require every man sitting on a piece of land to show reasonable proof of ownership. If the court finds he is the owner it will give him a new title-deed in his own name . . . which he can transfer by going before a magistrate and paying only half-a-crown for a revenue stamp.

The Commissioner's instructions were framed in accordance with the provisions of the Native Administration Act. It seems that large numbers of natives were summoned to appear before the Commissioner with their title-deeds in order to prove their rights to their land and receive new titles. These natives live in that portion of old Kaffirland (the so-called Cis-Kei) which for a long time has been administered as an integral part of the Cape Province and where individual landownership has made most headway among the natives. Sixteen thousand of them refused to hand in their title-deeds, among whom was the Reverend H. K. Ndobe. Ndobe was sentenced by the Commissioner to pay a fine of half-a-crown for contempt of court. He appealed to the Eastern Districts Division of the Supreme Court and thence to the Appellate Division.

The case made on his behalf was that the Native Administration Act (under which the Commissioner was acting) on five points interfered, or might interfere, with the safeguarded rights of native registered voters in the Cape

South Africa

Province, and that, as it was not passed by a two-thirds majority, it was *ultra vires* the powers of the Union Parliament.

The Eastern Districts Court decided against Ndobe on the ground that the Native Administration Act did not directly affect native voters' rights. But the Court of Appeal based its decision on different grounds. It held that the necessity of a two-thirds majority applied not merely to an Act directly affecting native voters' rights, but to any Act which even indirectly affected native voters. It found that the Act, as it stood, might affect native voters' rights, but assumed that Parliament could not have intended this and therefore read into the Act a protective reserving clause, and thereupon dismissed the appeal.

Such are the issues involved in the case of *Rex versus Ndobe*. Whatever the outcome of the appeal to the Privy Council may be—but especially if it succeeds—the question of “our relation to the Privy Council” is almost bound to become a practical political issue and to be seriously raised in Parliament when it meets next January. Already prominent Nationalists have declared that it is “intolerable” that an external court should thus interfere in our affairs, and especially in our Native affairs. It may, however, be found that the abolition of the right of the Privy Council to intervene is not such a simple matter as at first sight it appears to be.

III. THE UNION CENSUS

AT midnight on May 5-6, 1931, there was a numbering of the people throughout South Africa. In the terms of the South Africa Act of 1909, a European census has to be taken every five years to supply the data for the quinquennial reallocation of seats in the House of Assembly

The Union Census

among the four provinces. A census of all, Europeans and non-Europeans, falls due every ten years. One such complete enumeration was made in 1911 and another in 1921; the third fell due this year.

It was very desirable that this complete census should be made, even though non-Europeans do not enter into the calculations of the Commissioners entrusted with the reallocation of seats. Many South Africans realise that their country is an unrivalled human laboratory of first-class interest to all who are anxious to know what happens when various nationalities, races and cultures essay to live side by side in a given territory. They felt that this census would give information of the highest importance to all whose task it is to order aright a crowded and rapidly shrinking *orbis terrarum*.

Further, for some years past, the Nationalist-Labour Ministry has been attempting to carry a comprehensive body of laws, notably the repeal of the Cape colour-blind franchise, which shall safeguard "White South Africa" against the rising tide of colour. Part of the justification pleaded for a policy which savours much more of those of the two ex-republics and Natal than of the old liberal Cape Colony, is the belief that the decade 1911-21 saw an alarmingly rapid increase of non-Europeans, especially of the already greatly preponderant natives (Bantu), an increase which threatened to swamp the Europeans. Calculations built up on this very short base-line of ten years created something of a panic as men looked twenty or thirty and forty years on, a panic which underlies much of the actual and proposed Native legislation. These calculations have been subjected to most damaging criticism by competent men who hold that the apparent increase is in the main due to the much more complete numbering of the Bantu in 1921 than ever before, and not to natural increase. These men looked for the confirmation or the disproof of their reassuring arguments to the census of 1931.

South Africa

The census authorities set to work in a fashion which bade fair to meet these demands.

The first object of the Census (they told us) is to obtain reliable figures of the population of the country, showing how the population is made up, that is to say, the racial classification . . . including persons of mixed race ; and further, how the population is distributed throughout the provinces, towns, villages, etc. . . . The habits, customs and condition of the people are always gradually changing, and the direction and extent of these changes can only be measured by the comparison of the results of successive censuses.

Unfortunately, on the heels of this unimpeachable statement came an eleventh-hour decree of the Government. "The Census of 1931 is now to apply to Europeans only. All references in this pamphlet to the enumeration of non-Europeans are therefore cancelled." And to avoid the risk of confusion, many thousands of non-European census forms which had already been printed had to be destroyed. Avowedly, the cancellation was due to the need of economy. Times are admittedly bad, though not so bad in gold-producing South Africa as in many other parts of the world. But surely they are not so bad as to warrant the withdrawal of a comparatively small expenditure which would have given the world, and above all the Union, information which they sorely need. However, there it is. The Union held merely a semi-census, a numbering of the People instead of a counting of the population.

As regards the dominant 25 per cent. of that population, we shall, allowing a margin for unsuspected Europeans who were not given census forms, learn how many are South African born and how many not, how many are married or otherwise, how many are bilingual, how many are clerks or bricklayers, how many are Christians, Jews, agnostics or unclassified ; we shall even know how many dwell under slate roofs and how many under the humbler corrugated iron. But of the darker-skinned 75 per cent. we shall learn nothing. The cry goes up that this great

The Union Census

majority is invading every walk of life except membership of Parliament and certain skilled occupations from which they are debarred by law ; yet the major factors of that problem are all to remain *x*. Presumably, till the next real census falls due in 1941, we shall have to do the best we can with figures which are already ten years old. In this vital matter, the Union Government stands alongside poor Jim Jay "who got stuck fast in yesterday." But they will have to legislate for to-day—and to-morrow.

Some of the preliminary results of the census are none the less interesting, always bearing in mind that they refer to Europeans only. That section of the population has increased during the past five years (1926-31) from 1,677,322 to 1,825,527, an increase of 8·84 per cent. as compared with 10·34 per cent. between 1921-26. Our males still out-number females considerably: 929,516 against 896,010, though the women are slowly gaining in numbers on the men. Three tides can be traced: one from the Cape and Free State to the more highly industrialised Transvaal and Natal; another from the rural areas to the towns; the last, hardly perceptible, into the Union from outside. A short table will best illustrate the first tendency:—

				Expected natural increases	Enumerated increases
				(in percentages).	
Cape	..	..	..	7·88	5·67
Natal	..	..	..	6·10	11·65
Transvaal	..	..	..	8·93	14·34
Orange Free State		..		8·78	1·16
Union				8·20	8·84

As for the flow from the countryside to the towns, it is going on fast. Nine large urban areas accounted for 74·1 per cent. of the total increase; the rest of the Union for the remaining 25·9; and it should be borne in mind that in the rural areas families still rule large. For sheer size,

South Africa

Johannesburg takes pride of place (201,784 as against 170,741 in 1926) with Cape Town next (146,249 as against 130,568) and Durban third (86,296 as against 70,883). But it is worth noting that one of the Cape coast towns, Port Elizabeth, shows the greatest proportionate increase. In most districts the small towns have also gained at the expense of the farms.

Thirdly, immigration by land and sea, including our happily increasing number of visitors as well as the considerable number of those who pass through the Union to and from States further north, shows a slight balance over emigration: 202,721 arrivals as against 190,226 departures, a modest gain of 12,495 in five years.

The census with all its shortcomings does give us the basis for a reallocation of seats in the Lower House. At the time of union in 1910, these totalled 121. Of these the Cape held 51, since it had been deprived of at least six seats for the benefit of the two smaller provinces, which were given specially high representation; the Transvaal held 36, Natal 17, and the Orange Free State 17. To-day the figures are 58, 55, 17 and 18 respectively in a House of 148. All that can be said at the moment is that the coming delimitation will probably give the Union an Assembly of 150, which is the maximum that the South Africa Act contemplated "unless and until Parliament otherwise determines," and which also sees the end of the special treatment of Natal and the Free State. In the new House, the Cape should have 61, the Transvaal 57, and the two smaller provinces 16 each.

South Africa.

July 1931.

NEW ZEALAND

I. ECONOMIC AND FINANCIAL LEGISLATION

ON March 17 the Prime Minister moved the second reading of the Finance Bill, which (*inter alia*) made a 10 per cent. cut in civil service salaries and gave power to the Arbitration Court to revise wages payable under awards. A wrecking amendment moved on behalf of the Labour party having been defeated by 46 to 21 and the Bill read a second time, the Labour party organised its forces for a stubborn stand on the committee stage. In opening the debate the Prime Minister had declared that "every attempt should be made to see that the cost of living is brought down so that in the end the real wages will not be different." So Mr. Fraser, member for Wellington (Central), opened the attack in the committee with a cleverly devised instruction to the committee of the whole House "That it hath power to make provision in the Bill for ensuring that the cost of living, including food, clothing, and rent, be lowered simultaneously with, and in proportion to, the amount of reduction in the salaries of the Public Service employees as specified in Part I of the Bill ; and simultaneously with, and in proportion to, the amount of reduction in wages as ordered from time to time by the Arbitration Court under Part II of the Bill." The Speaker ruled that the instruction was in order, but it was defeated. The Labour party stubbornly continued their stone-wall tactics. Hitherto, there had been no provision for any

New Zealand

form of closure in the Standing Orders of the House of Representatives, which had relied upon a time limit and the sweet reasonableness of members to keep down the length of speeches, and so from March 23 to 27 the Opposition were able to waste the time and money of the country in obstruction that obviously could achieve nothing. A new standing order, to operate during the currency of the twenty-third parliament, has, however, now been passed, which, subject to certain conditions, enables a question to be put and a motion to be carried without further debate.

After numerous amendments had been made and the closure applied on three separate occasions, the Finance Bill was read a third time with two alterations suggested by the Leader of the Reform party. The first enabled railway servants to arrange with the general manager for the manner in which their wages were to be reduced and for their exclusion from the operation of the Act, provided that the reduction was not less than that prescribed in the Act, while the second enabled the Governor-General to make regulations for the relief of cases of hardship, and thus to give effect to the Prime Minister's promise to set up a hardship tribunal to deal with the cuts in the civil service. The Bill came into force on April 1.

Two emergency Acts had smooth and rapid passages. The first, the Mortgagors' Relief Act, applies to mortgages and other secured loans and to agreements for the sale of land. It entitles the mortgagor or purchaser to receive notice before powers of sale or other rights are exercised against him by the vendor or mortgagee (even if it is the Crown), and empowers the courts in certain cases to grant him a respite.

The second, the Immigration Restriction Act, which was called for by the Unemployment Board owing to the influx of unemployed from Australia and elsewhere, was generally considered to be a necessary measure, but it was subjected to a certain amount of criticism on account of the unrestricted power which it gives to the Government, for any economic

Economic and Financial Legislation

or financial reason, to issue Orders-in-Council prohibiting persons of any specified nationality or race, or of any specified class of occupation, from landing in New Zealand. No such person may land without a permit granted by the Minister of Customs. The Act is to continue in force until December 31, 1933.

On April 8 the Prime Minister moved the second reading of the Bill to provide relief in connection with the Hawkes Bay disaster. Shortly after the earthquake he had announced that the State Fire Insurance Office would make *ex gratia* payments to people insured by it against the risk of ordinary fires only, if their property had been destroyed or damaged by fires arising out of the earthquake. The total amount of such payments was stated to be about £50,000. The other insurance companies, whose policies also exclude the risk of fire damage as a result of earthquakes, have not, however, followed the lead of the State Fire Office.

The original idea of the Government and of the business community in the earthquake area was to raise a special loan on the London market, but, on making enquiries, the Prime Minister considered that the sensitive condition of that market made it unwise to seek a loan there. In the Bill, therefore, he proposed as a first instalment to make available a sum of £1,500,000 to be borrowed from the Reserve Fund, a nest egg of liquid securities kept in London for realisation in case of emergency. Of this sum £1,250,000 will be used to assist, either by grant or loan, persons who have suffered loss by reason of the earthquake, and £250,000 will be available for loans to local bodies. The Bill proposed that the loan from the Reserve Fund should be recovered by means of a special insurance tax of 1s. 6d. per cent. on the value of insured property to be paid by insurance companies, which would then add the amount to the insurance premiums payable by their clients, and by means of an insurable property tax of 1s. 6d. per cent. on the value of uninsured buildings and their contents

New Zealand

When the loan from the Reserve Fund was repaid, say in five or seven years, the proceeds of the tax were to be devoted to building up a fund to meet similar emergencies in the future.

The Bill also set up (a) an adjustment court consisting of the Chief Justice and two nominated members to deal with rights and obligations affected by the destruction of documents, etc., and with applications for relief from obligations and encumbrances which as the result of the earthquake have caused hardship—a court clothed with “extraordinary powers,” to use the Prime Minister’s own words, of interference with the law of contract, and with the right to accept any evidence it thinks fit, to hear proceedings in camera, and to make such orders as it deems just and equitable, and (b) a rehabilitation committee of five persons appointed by the Minister of Finance to consider applications for assistance.

An amendment moved by Mr. Barnard, member for Napier, was a fair indication of the views of the Hawkes Bay people. It suggested the following steps: a loan of four millions, further negotiations with the Fire Underwriters Association to obtain the co-operation of the fire insurance companies in ascertaining losses and making financial assistance available, the immediate completion by the Public Works Department of the demolition of ruins and the removal of débris in Napier—the cost to be found out of the fund—and the acceptance of the general rule that houses and household goods destroyed or damaged should be restored as a free grant to the full extent of the loss sustained. Mr. Barnard said that estimates of the number of applications for relief ranged from 8,000 to 40,000. Other members from Hawkes Bay constituencies insisted that from 4½ to 5 millions would be required. The criticism of the Bill in the House was sympathetic, non-partisan and constructive. Eventually it was referred to a Select Committee, which suggested an amended basis for the insurance tax and commended to the Government a

Economic and Financial Legislation

series of resolutions framed mainly with the object of giving relief in cases outside the provisions of the Bill. But the hostility to the insurance taxes was so strong that Mr. Forbes decided to hold that part of the Bill over until next session. With this obstacle out of the way the Bill rapidly passed into law.

In the course of the final debate Mr. E. A. Ransom, the Minister of Lands, gave the House the following information :—

Total insurance cover on buildings and contents in earthquake area	£4,131,377
Approximate estimate of losses caused by the earthquake:	
Government losses	580,000
Local body losses (including Napier Hospital) ..	500,000
Private and business losses	2,200,000
Total losses	£3,280,000
Total financial assistance available or in sight, including £225,000 earthquake insurance payable by insurance companies	£2,226,000

The Adjustment Court and the Rehabilitation Committee have been formed on non-party lines and have started on their work.

In introducing the second Finance Bill on April 16, the Prime Minister stated that the estimated deficit for the current year was £5,500,000, and that the following economies were provided for :

Reductions in salaries and wages	£1,390,000
Other economies	700,000
Use of reparation moneys	330,000
Additional postal revenue	900,000
	£3,320,000

leaving a gap of £2,180,000, to meet which proposals would be made in June.

The No. 2 Bill provided for a number of economies,

New Zealand

including the payment to the Consolidated Fund of the amounts saved by the "cut" effected by the Finance Act, No. 1, in the salaries of employees in the trustee and insurance departments. Considerable opposition was raised both inside and outside Parliament to the transfer from the government Life Insurance Department, on the ground that it had been widely advertised that all the profits of that department belonged to the policy holders. Other economies consisted of the reduction of the family allowances from £4 to £3 12s., and of the maternity allowance paid under the National Provident Fund, popularly called the "Baby Bonus," from £6 to £4, the abolition of certain educational bodies, the combining of secondary and technical schools for purposes of control, and the abolition of certain scholarships. Power was also given to the Governor-General to regulate the import and export of coined silver. Certain clauses of the Bill met with opposition from the Labour party, but it was eventually passed practically unaltered.

The legislation promised for the "depoliticalisation" of the railways took the form of the Government Railways Amendment Act 1931, which met with a good deal of hostility. Mr. Coates, the Leader of the Opposition, agreed that the railways should be freed from political control, but he argued that the Bill fell short of its objective. Mr. Holland, the leader of the Labour party, urged that co-ordination of transport was required rather than depoliticalisation. Other members suggested that the Bill should have come up at the same time as the Transport Bill. In its original form it set up a government railway board of three, but made no provision for the investigation by the board of the position of new railways now in process of construction, notably the South Island Main Trunk line, about which there has been much controversy. The inclusion of this power, suggested by the Opposition, was agreed to. The membership of the board was eventually increased to five; the Chairman to receive £1,000, and

The Position of Parties

each of the other members £500 a year and travelling allowances.

The general functions of the board, which has already been constituted and has begun to function, are to manage the railways on the most economical lines as a public service in the interests of the people of New Zealand and as an essential factor in the development of trade and industry, with a view to obtaining the maximum of efficiency and maintaining a proper standard of comfort and convenience. The functions (with certain exceptions) of the minister, the general manager and the permanent head of the Railway Department are transferred to the board, which is to appoint and control the staff—the general manager, however, being appointed by the Government on the recommendation of the board. The board may not purchase land for more than £1,000 without the approval of the Government, nor without the approval of the minister purchase stores where the total amount under any contract exceeds £10,000.

New lines are not to be constructed until a report has been laid before both Houses of Parliament and a resolution approving the work has been passed by them, similar provision being made for the curtailment of work upon any railway under construction.

The board may close unprofitable lines, and, with the approval of the Government, dispose of land and other property in respect of such lines. The minister may order inspections and direct inquiries into accidents.

II. THE POSITION OF PARTIES

THE session ended on April 27, having lasted nearly seven weeks in lieu of the three that Mr. Forbes anticipated. The Prime Minister bore the burden of the work practically single-handed, for he piloted through all the Bills himself, showing himself as strong in determination as in physique, and his almost phlegmatic

New Zealand

imperturbability proved a valuable asset throughout the strain of the Labour obstruction.

During the session, petitions were presented to the Prime Minister and the Leader of the Opposition from commercial circles, in identical terms, urging the necessity for the establishment of a national government comprising the United and Reform parties. The day after the session closed, the Prime Minister, in a dignified statement to the press, called attention to "the necessity of having a strong government to control affairs while the Dominion is passing through the present serious economic crisis," the issues being "too serious to allow of personal or party considerations standing in the way of securing the strongest possible government to control the affairs of the Dominion," and he expressed his feeling that the time had arrived for the formation of a national party, which would go a long way toward the restoration of confidence both in the Dominion and in the Old Land. On behalf of the members of his party, who were unanimously behind him, he therefore invited Mr. Coates and his party, and all others who had the best interests of the Dominion at heart, to co-operate in the formation of such a party.

To effect this (he said) my colleagues have intimated to me their willingness to place their resignations in my hands, so that the leader of the new party, when selected, will not be hampered in any way in his choice of a cabinet. And to provide that the question of leadership shall not be an obstacle in the way, I am prepared to abide by any decision of the new party in regard to this matter.

The Reform leader made his reply on May 6. He declined to join in what he stigmatised as an attempt to remove from the electors the right to determine whether the United party was entitled to change its declared policy. The Reform party's policy had not changed, and the United party's alliance with the Labour party, based on a common animosity against the Reform party, had come to an end, not because the United party was converted to the

The Position of Parties

Reform policy, but because Labour was dissatisfied with the latest policy of the United party—a policy, by the way, which is in the main identical with the one suggested by Mr. Coates himself and recognised by the bulk of the community as necessary to weather the storm. Reform declined to become part of a party influenced by fear of the accession of Labour to power, for fusion in a national party would, in his opinion, set up class government. The Reform party claimed to represent the whole people, was proud of its record of service, and declined to be torn up by the roots at a moment's notice. He considered that the proposed new party would contain none of the elements of stability or harmony and all the seeds of inefficiency. Comparative absence of criticism in matters of administration did not mean that the Reform party possessed any substantial degree of confidence in the administrative ability of United ministers. Mr. Coates closed his statement with the suggestion that the present Government should carry on "with the Reform party supporting such measures of economy and finance as the present crisis demands," and that he was prepared to furnish a small committee of Reform members to confer with ministers before legislation was introduced.

The contrast between the statements of the two leaders seemed at the moment to have raised the *mana* of Mr. Forbes and depressed the stock of Mr. Coates. Negotiations were closed by Mr. Forbes on May 13 with an "appeal to every one in the community for co-operation and support in facing this grave national crisis." In view of Mr. Coates' rejection of his offer, he said, "it remains for me and the Government over which I preside to do our best under the circumstances. Measures covering the postponed portion of the financial policy will be submitted to Parliament early next session, and the Government will stand or fall by their acceptance or rejection."

The result of the Hauraki by-election, held on May 26, following the death of Mr. A. W. Hall (Reform), caused

New Zealand

jubilant in the ranks of the Reform party. It seemed to have justified Mr. Coates' refusal to fuse, and he had an enthusiastic reception on his subsequent visit to the South Island. The leaders of all three parties took part in the campaign. The result, as compared with 1928, was as follows :

		1931.		1928.
Reform	.. Mr. W. W. Massey	4,023	Mr. Hall	3,826
Labour	.. Mr. C. R. Petrie	2,599	Mr. Petrie	2,411
United	.. Mr. E. Allan	997	Mr. Allan	2,935
Country	.. Mr. A. A. Ross	513		—

The drop in the United vote is probably accounted for by the transference of some United votes to Reform and Labour. Mr. Massey is 49, a farmer, son of the late Prime Minister, and has been identified all his life with the district. His personal popularity, his disagreement with the 10 per cent. cut in wages, his advocacy of a cut on a sliding scale, and his promise to give the civil service equal treatment with other sections of the community doubtless account for the substantial number of United votes that he received, which otherwise would have gone to Labour.

III. UNEMPLOYMENT

THE schemes of the Unemployment Board in operation during the past quarter have been Nos. 4 and 5. The former was to assist farmers to employ men in ordinary development work ; the latter, which has been operating since February 9, provides for free labour on a rationed basis, the work to be found by local bodies, and the Unemployment Board to be responsible for wages. The scheme provides work at relief rates (9/- a week for single and 12/6 for married men), two days a week for a single man, three for a married man with a wife and/or two children under 16, four for a married man with a wife

Unemployment

and/or three or more children. On the coming into operation of these schemes the number of unemployed bounded up; this was accounted for by heavier registration, by the dismissal of employees in consequence of the relief provided by the State, by the registration of farmers and their sons whose income had vanished, and of many persons with means of their own. All this meant stricter supervision and increased work in eliminating the ineligible.

From the end of February the bulk of the unemployed have been working the number of days contemplated by the scheme, which varies with their status. On June 1 42,523 were registered as unemployed, of whom 35,077 were placed, leaving 7,446 without work. The drain on the funds of the board was so great that at the end of March the amount paid weekly in wages was almost double the receipts from the levy plus the 50 per cent. subsidy received from the Consolidated Fund. In consequence, the scheme had to be suspended altogether from April 11 to April 27 inclusive. And as a result of the drain on the funds, the rules relating to the granting of relief were tightened up, and several classes previously eligible were made ineligible. During the suspension, doubtful cases were investigated to make sure that work was provided only for genuinely unemployed wage-earners. Relief was also granted for three weeks only out of four, and a rule made that no work should be provided for any man who had not paid his 30s. annual levy. The following grants testify to the efforts of the board to encourage development work :—

£5,000 to the Native Trustee, to be followed by a loan of £15,000 for development work on sheep stations administered by him, whereby 500 men will be employed for four months.

£2,000 to the Mines Department to give employment to 100 married men on prospecting.

Subsidies of £15,588 for a loan raised by the Auckland City Council for work on the new water front road; of £3,000 for a land drainage scheme on the Hauraki plains, estimated to cost £12,000; and a loan of £650 to Kauri Gum Control Board.

New Zealand

Schemes are now in preparation for the absorption of the unemployed in clearing and developing crown lands, rehabilitating abandoned farms, in drainage work, in reclamation for the purpose of afforestation, and clearing away noxious weeds; attempts are also being made to encourage the pig industry, to increase production by farmers, to develop existing and to establish new secondary industries and to give preference to articles of New Zealand manufacture wherever possible.

The difficulty of carrying out schemes on a large scale is the lack of funds, as the following figures show:—

The receipts from the unemployment levy to April 30							
were	..	..	..	..	..	..	<u>£306,069</u>
The commitments (covering various periods not yet completed) to May 16, 1931, were as follows:—							
Scheme No. 1	..	..	..	..	..	..	£32,576
" " 2	..	..	..	..	..	..	34,953
" " 3	..	..	..	..	..	..	8,789
" " 4 A and B	..	..	..	..	..	..	56,725
" " 5	..	..	..	..	..	..	371,302
" " 5 (revised)	..	..	..	..	..	..	150,000
Miscellaneous subsidies, grants and loans	..	..	..	..	..	..	<u>60,583</u>
Total Commitments							<u>£714,928</u>

There has also been a great deal of unemployment among women, and the women's societies have been opening bureaux, keeping registers and appealing to housewives to help by giving a home and wages, even if they are only nominal, to those out of work.

On April 16 Mr. H. E. Holland, leader of the Labour party, moved the adjournment of the House, and a discussion took place on the question of suspending No. 5 scheme, on reducing the wage rate, and on the "no levy no relief" decision. He saw no reason why the Government and the board in co-operation should not put the men to work on undertakings of economic value. After a vigorous defence by the Minister of Labour, in which he

Wage Reductions

appealed for more assistance and less criticism, the motion was talked out.

On June 11 the Prime Minister announced that as the board had been spending over £2,000,000 a year on unemployment relief, whereas the amount available is less than £1,000,000 a year, the No. 5 relief scheme would be suspended as from June 20. He appealed to local bodies and unemployment organisations to use every endeavour to minimise distress until Parliament was able to deal with the position. In response, however, to appeals from all sections and all parties, he agreed to allow the scheme to continue and to ask Parliament to ratify his action.

IV. WAGE REDUCTIONS

THE Court of Arbitration consists of a judge, of a representative of the employers and a representative of the workers. On May 12 it commenced its sitting with the hearing of an application from the New Zealand Employers Federation for a general order varying all awards under section 16 of the Finance Act, 1931, according to which the court has to take into consideration the economic and financial conditions affecting trade and industry in New Zealand, and all other conditions that it deems necessary. The Act also empowers it to vary rates of pay as it thinks just and equitable. On the one side the leading employers associations were represented, on the other the New Zealand Trades and Labour Councils Federation and numerous unions.

The case for both sides was put with ability and restraint. Mr. T. O. Bishop, the representative of the employers, thanked the advocates on the workers' side for their courtesy and moderation, while Mr. Justice Frazer, at the conclusion of the hearing, expressed his appreciation of the thoughtful and able manner in which the arguments had been presented and the feeling of good fellowship and the desire to understand the other man's point of view that had been exhibited.

New Zealand

The arguments, briefly, were as follows. The employers contended that there was a precedent for existing legislation in that wages had previously been adjusted both upwards and downwards during the currency of awards, that awards did not constitute contracts, that there had been an all-round fall in values of produce, and as the price which the farmer gets is generally governed by the export price, and as he has to meet the world's most efficient and economical producers in open competition, his costs have to be kept at the lowest possible point. Otherwise he would be unable to carry on. Hence the necessity for adjusting the cost of labour both in production and distribution. The employers asked for a reduction of 20 per cent. in the money rate of wages, and predicted that if it were made all internal costs would be reduced, output improved, and confidence renewed throughout the whole industrial field.

This demand was met by Mr. J. Roberts, for the unions represented at the recent national conference, with a counter-demand for an increase of 15 to 20 per cent. in wages which, he said, was necessary on the supposition that the number of hours worked on an average during the past year by workers receiving an hourly wage had been taken as the basis on which the present wage was fixed, provided that the workers were to retain their accustomed standard of life. A large number of witnesses, including some Labour Members of Parliament, were called on behalf of different unions. The workers' case was that rationalisation of industry and the introduction of the machine had turned the mechanic into a casual labourer in his particular line, and made the unskilled worker's job even more casual. If wages were fixed only according to the time that the worker was actually engaged, he should receive a sustenance wage when not in employment. A large amount of rationing was going on in the different trades. Award wages were only a minor factor in farm costs. The farmer's economic difficulties were due to the

Wage Reductions

high price of land, the high rate of interest, and the deterioration in the quality of cheese. Acting on the 1922 judgment of the court, the workmen had incurred responsibilities on the basis of their then incomes in borrowing to build their houses, in respect of which they had to pay interest and other irreducible charges. Reduced wages meant reduced purchasing power, which meant reduced output. A reduction in wages would not be passed on to the consumer. A reduction in the standard of living of the wage-earner meant an impairment of his efficiency. For several years there had been a progressive increase in the volume of production per head of the population, and with better methods this increase could be extended. Such an advance in output justified raising the standard of living of the wage-earner. The 1914 standard of living was a fair one in 1931, and any reduction of wages would plunge the workers far below the 1914 standard, because of the periods of unemployment.

The decision of the Arbitration Court was published on June 1. With certain exceptions, it made the following order :

Reduction of 10 per cent. in all money rates of wages, including overtime and other special payments. The order applies to all awards of the Court, industrial agreements, and agreements registered under the Labour Disputes Investigation Act, 1913. The order comes into force on June 8, except in the case of workers whose wages are calculated on a monthly basis. In their case, the order operates as from June 1. The Finance Act makes provision for any union to apply to the Court on special grounds for exemption of all or certain classes of its workers from the provisions of the order.

The Judge, in a memorandum, pointed out that the Finance Act of 1931, unlike the Act of 1921-22, omitted all direct reference to the cost of living and a living wage, and made the economic and financial conditions affecting trade and industry the paramount consideration. He considered it clear that an award or industrial agreement was not a contract, but merely a document setting out the minimum

New Zealand

terms and conditions upon which a contract of service might be entered into. The national income had been substantially reduced and with that reduction there must come a general readjustment of the distribution of that income. Wages are, in the ultimate analysis, paid out of the proceeds of production, and the proceeds of production are barely two-thirds of what they were a year or two ago. The capital losses on representative industrial and commercial stocks during the past 18 months had been from 20 to 50 per cent. While a reduction in the rate of wages would not materially benefit the farmer as a direct employer of labour, he would derive considerable indirect benefit from such a reduction. Neither Parliament nor the Court could control rates of interest, which depend on the relative supply of and demand for loanable capital. It had been contended that a reduction in rates of remuneration would detrimentally affect internal trade by lowering the purchasing power of the community. But the reductions in award rates of wages in New Zealand necessitated by the depression of 1921-22 were followed within two years by an increase of 7,345 in the number of workers employed in manufacturing industries and an increase of £896,065 in the amount of wages paid. The position of the bond-holder could not be assailed without repudiating the bond, and repudiation would deal a more serious blow to our national credit than any temporary gain would compensate. If the March, 1931, cost-of-living index were taken, a reduction of 10 per cent. from the average rate of wages would leave the same purchasing power as in July, 1914. During the past two years there had been a drastic contraction in capital values and profits. It was probable that an adjustment of prices and wages to meet world conditions would give an impetus to industry, in which there is at present a distinct hesitation to make any forward move. Real wages, as distinguished from nominal or money wages, would tend to increase. It is economically impossible to maintain money wages at their present level.

Defence

While the economic and financial conditions affecting trade and industry, taken alone, would justify a reduction of 15 or 20 per cent. in award rates, an allowance should be made for the admitted, though unascertained, drop that had already taken place. A reduction of 20 per cent. would involve a considerable reduction in the standard of living below what was indicated by the cost-of-living statistics. The position should also be considered of those workers who were paying off the purchase money for their homes. Though the houses were not all bought when prices were at their peak, housing costs are fixed charges and represent the largest single item in household expenditure. A reduction of 20 or even 15 per cent. would discourage thrift. Hence one of 10 per cent. would, in his opinion, give relief to producers and consumers by lowering the costs of production and distribution and yet would not inflict undue hardship on the workers. Manufacturers and traders should pass on the benefit of reduced costs to their customers.

V. DEFENCE

ON May 19 Mr. Cobbe, the Minister of Defence, announced the reorganisation of our defence forces on a basis of voluntary enlistment. The following are the essential features of the scheme :

(a) The rapid mobilisation of a force of 9,982 men for home defence or for service overseas.

(b) The maintenance of the divisional organisation which has existed ever since the great war.

(c) The retention of the present Territorial units with their identity and traditions.

(d) The maintenance of a small but highly trained permanent force for the instruction of the Territorial Force and Cadets and for peace administration.

Each of New Zealand's three commands will, as heretofore, be required to provide : one brigade of mounted rifles ; one brigade of infantry ; one field artillery brigade and other artillery units ;

New Zealand

an engineer field company; a signal depot; an army service corps company; and a field ambulance.

Every encouragement in instruction and equipment is to be given to secondary school cadet corps, estimated to number 16,300 boys.

Enlistment in the Territorial Force will be accepted from men between the ages of 18 and 25 for a period of three years, and provision made for extending service up to the age of 30.

For the present, training throughout the year will be limited to six evening parades, two half-day parades, six days' continuous training in camp, additional training to be arranged whenever possible. Courses of instruction will be held from time to time at the training depot, Trentham Camp, and in commands.

Pay and allowances will be the same as those at present laid down by regulations for the Territorial Force.

Criticising the scheme, the *Dominion* (Reform) of Wellington pointed out on May 20 that a volunteer force was not in the past and will not in the future be regarded as a serious preparation for national defence, that the voluntary system, man for man, will cost more than the present compulsory scheme—a prediction which Australian experience has already verified—and will mean a greatly reduced strength, and that by abandoning its principle of universal service "the State is relaxing its control of thousands of youths who are in need of disciplinary influence at an impressionable age, thus weakening their sense of civic responsibility."

VI. THE TARIFF WAR WITH CANADA

IN an earlier number,* an incident in the negotiations between Australia and New Zealand was described as showing "that where trade is concerned Imperial sentiment weighs very little in the scales as against business interests." The same remark might be made to-day of trade relations between New Zealand and Canada. Despite all the talk at Imperial Conferences about imperial preferences Canada

* THE ROUND TABLE, No. 54, March 1924, p. 426.

The Tariff War With Canada

and New Zealand are indulging in "a policy of mutual boycott."

The high rate of duty imposed upon New Zealand butter has brought the export of that article to Canada almost completely to an end. On August 21, 1930, our Government retaliated by placing Canadian motor vehicles on the general tariff, thus increasing the duty from 26 per cent. to 50 per cent. Mr. Forbes hoped that his visit to Canada might result in more harmonious relations, but at last the New Zealand Government has been forced to the conclusion that there is no immediate prospect of detailed negotiations or of any effective mitigation of the unsatisfactory treatment of New Zealand butter. Hence the tariff was amended as from June 2. The British preferential treatment accorded to many classes of Canadian goods was withdrawn and they have been placed on the general tariff list. The rates on Canadian rubber tyres, motor vehicles and engines for motor vehicles fixed in August, 1930, have not been altered and all Canadian goods exported from Canada before June 2, 1931, will be admitted at the rates of duty in force immediately prior to that date.

On June 2 the Prime Minister published the text of a telegram addressed by him on May 26 to the Prime Minister of Canada, in which, after describing the position and the failure of the negotiations, he stated that the New Zealand Government, on the ground that mutual sacrifices were necessary to develop inter-Imperial trade, had refused to yield to strong pressure to increase the duties on Canadian goods which could be produced in New Zealand or to impose dumping duties on specific Canadian imports.

But now (he continued) when economic conditions in New Zealand are particularly difficult, the Government is faced with the position that substantial remissions of duty are granted here to Canadian goods without corresponding advantages to New Zealand. It is obliged to consider increased taxation to balance the budget and therefore it intends on June 1 to increase duties on many lines of Canadian goods . . . The Government, however, would still

New Zealand

welcome early negotiations to end the present unsatisfactory position, and as already advised would be happy to receive a Canadian minister here for that purpose at the earliest possible date.

The following figures give some idea of the trade between New Zealand and Canada before the tariff war. The importations of New Zealand butter into Canada in the year 1929-30 amounted to over \$13,500,000. The total value of the exports from New Zealand to Canada in 1929 was £3,353,975. The value of goods imported into New Zealand from Canada in 1929 was £4,774,493 or 9·81 per cent. of the Dominion's total imports. Imports from Canada into New Zealand ranked third after those from Great Britain and the United States. The result of the new tariff is that Canada's trade with New Zealand in motor vehicles and parts and New Zealand's exports of butter to Canada have both fallen away to practically nothing.

New Zealand.

June 27, 1931.

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THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF
THE BRITISH COMMONWEALTH

CONTENTS

	PAGE
Great Britain and the Financial Earthquake	I
I. <i>The World before 1914.</i> II. <i>The World Since the War.</i> III. <i>The Crisis of To-day.</i> IV. <i>Great Britain's Problems.</i> V. <i>The Conditions of World Recovery.</i> VI. <i>Great Britain's Task.</i>	
The European Problems of the United States	26
I. <i>The Paris Idea.</i> II. <i>The Hoover Plan: Great Expectations.</i> III. <i>The President and M. Laval.</i> IV. <i>Disarmament: A Suggestion.</i>	
The World and the Crisis	39
I. <i>The Future of the Peace.</i> II. <i>The International Outlook.</i> III. <i>The</i>	
Russian Realities: The Protestant Religion	58
I. <i>The Rise of Protestantism.</i> II. <i>A Change of Attitude.</i> III. <i>The Coup de Grâce.</i>	
Germany in the Storm	71
<i>Germany's Condition a Menace.</i> I. <i>Reconstruction and Disillusionment.</i> II. <i>The Nazi Appeal.</i> III. <i>Dr. Brüning and Bankrupt Parliamentarism.</i> IV. <i>German Policy.</i> V. <i>How about England?</i>	
The Manchurian Crisis	91
<i>Chronicle of Events—September 19 to October 19.</i>	
(Continued on next page.)	

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CONTENTS (*continued*)

India and the Round Table Conference	PAGE 100
I. <i>Mr. Gandhi's Reasons for Going to London.</i> II. <i>The Reaction in India to the Conference Proceedings.</i> III. <i>The Financial Crisis and other Matters.</i>	
Great Britain	118
I. <i>The General Election.</i> II. <i>The Pound and Industry.</i>	
Ireland: Events in the Free State	137
I. <i>The Fall of the Pound and the Internal Unrest.</i> II. <i>The Trade Balance and other Matters.</i>	
Canada	155
I. <i>The Maritime Provinces.</i> II. <i>The Beaubarnois Investigation.</i>	
Australia	168
I. <i>The Struggle towards Financial Rehabilitation.</i> II. <i>Mr. Lang and New South Wales.</i> III. <i>Mr. Theodore and the "Mungana" Affair.</i>	
South Africa	188
I. <i>South Africa and the Gold Standard.</i> II. <i>The Provincial Question.</i> III. <i>The Problem of the Low Grade Mine.</i>	
New Zealand	208
I. <i>Unemployment.</i> II. <i>The Budget.</i> III. <i>Coalition at Last.</i> IV. <i>The Statute of Westminster.</i>	

CONTENTS OF Nos. 83 and 84

No. 83. JUNE 1931

	PAGE
Great Britain's Problem	481
France and Germany	499
Is the Five Years' Plan a Menace ?	521
Economic Safeguards in India	541
President Hoover at Mid-Term	554
China	570
India after the Conference	583
Great Britain	604
Ireland: Events in the Free State	619
Canada: <i>Aviation as an Imperial Link—Federal Politics</i>	635
Australia: <i>Men and Measures at Canberra—Politics and Finance—The Problems of the Northern Territory</i>	653
South Africa: <i>The Session—The Budget—The Japanese Agreement</i>	672
New Zealand: <i>The Outlook—The New Economic Policy of Mr. Forbes—The Emergency Session—Unemployment</i>	691

No. 84. SEPTEMBER 1931

The Political Foundation for Disarmament	713
Shanghai	738
The Crisis and Its Background	769
American Politics and the Hoover Plan	793
The Macmillan Report	807
Doubts and Difficulties in India	821
Great Britain: The Narrow Way ?	836
Ireland: Events in the Free State	852
Canada: <i>Parliament and the Depression—The West</i>	867
Australia: Monetary Policy and Financial Reconstruction	888
South Africa: <i>The Session—The Statute of Westminster and the Privy Council—The Union Census</i>	907
New Zealand: <i>Economic and Financial Legislation—The Position of Parties—Unemployment—Wage Reductions—Defence—The Tariff War with Canada</i>	921

NOTE

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GREAT BRITAIN AND THE FINANCIAL EARTHQUAKE

THE need for the National Government and the justification of its recent appeal to the electorate both lie in the magnitude of the tasks which now face any Government in this country. The nation has shown by its votes its recognition of an overriding emergency. The value of that demonstration is not easily exaggerated, whether at home for its assurance of stability and of a reawakened self-respect, or abroad as a challenge to the prophets of British decadence and a stimulus to governments and peoples caught in the grip of problems not less oppressive than our own. The popular verdict is in no way less striking because it is a vote not for a policy so much as for an attitude of mind. There is, indeed, no evidence that the electorate wished to bind its leaders to any set of detailed measures for meeting the emergency, and the Government is free to approach both the national and international aspects of the crisis with no duty imposed on it except that of showing courage and energy and an unbiased mind.

It may be useful to sketch the conditions in which the new Government will have to work, to indicate the problems which are amenable to its action and those which are not, to suggest reasons for thinking that certain forms of treatment are more likely to be efficacious than others. This may seem a modest objective, unworthy of a crusading age. Yet it involves an investigation, perfunctory perhaps and not professional, into the pathology of those diseases which

Great Britain and the Financial Earthquake

are preying on the world's economic organism, and a study of their effects on our own economic life and of the state of general health in which their attack came upon us. It will be found that national and international problems are in one sense inextricably interwoven and in another sense quite distinct. Our national difficulties may be increased or diminished by action taken abroad with or without our support. On the other hand, there are measures which we in Great Britain, and we alone, can carry through, and which in any conceivable course of international developments can only strengthen our position. Indeed, it may well appear that the extent of our influence on international arrangements must depend largely on the success or failure of our efforts to set our own house in order. For like any individual or institution or State well known to be financially embarrassed, we have lost prestige and our credit is impaired, and in such circumstances no creditor, no disinterested observer even, can be persuaded at all readily to subordinate his suspicions to a reasoned enquiry whether the embarrassment is more than temporary. By common consent the first and paramount objective of the National Government will be to restore the financial credit of Great Britain.

I. THE WORLD BEFORE 1914

THE world to-day is in the grip of an earthquake, and the complex structure of international credit is shaken to its foundations. Just as an earthquake in the physical world has its origin in profound disturbances of the nature of which we have neither complete nor exact knowledge, so too an element of doubt, almost of mystery, surrounds the economic collapse which we are now witnessing. At the best, our analysis must be partial, our judgments approximate; our belief that another policy in this or that particular would have changed the face of the world can be little more than a probable speculation. Yet

The World Before 1914

if the details are blurred, the general outlines are clear. Perhaps the most direct clue to an understanding of the present state of the world can be obtained if we look back to the working of the system of international credit before the war and then turn to consider the conditions in which that system has had to operate during the last ten years.

For three generations before 1914 the world passed through a period of peace and growing prosperity. It is true that peace was not absolute nor prosperity constant or universal. War was always in the background, at intervals it held the scene; the spectres of financial crisis and economic depression were never exorcised. Yet the effects of war were kept within bounds, and through all variations the curve of prosperity was a rising curve. In spite of every lapse from grace the peoples of the world had laid firm hold on the truth that the foundation of all wealth is the free exchange of goods and services. In laborious days they cultivated the arts of peace. Barriers to international trade were broken down by the elimination of customs frontiers, the decay of private privilege, the improvement of all the means of transport and communication. Tariffs, where they existed, were moderate; the Chauvinist was slow to stray outside the sphere of politics. The two great creditor nations of those days, Great Britain and France, invested their favourable balances, steadily, methodically, in the newer countries—in their own dominions, in North and South America, in Russia, in the Far East. These investments were for the most part applied to reproductive development—in building the railways of the Argentine or of Russia. in port works throughout the world, in the irrigation of Egypt, in the mines of the Witwatersrand. They were made not by speculators, but by investors, rich and poor, who cast their bread on the waters. By this constant flow of capital to the ends of the earth trade was immensely stimulated and a market created for the products of the great equipment industries, iron and steel and engineering:

Great Britain and the Financial Earthquake

Foreign investment on the scale of the last fifty years would have been impracticable if, on the monetary side, the nineteenth century had not evolved the delicate mechanism of the gold standard. By the device of fixing the value, in terms of gold, of the unit of account in each civilised country, the world contrived to maintain relative stability of the exchanges and approximately similar movement of price levels in all countries adhering to the gold standard. Thus an investor in England or France, placing his money abroad, could assume with reasonable confidence that his investment would not be jeopardised through violent exchange fluctuations between his own currency and that of the country to which he was lending. The practical working of the gold standard became largely automatic. If, at a given moment, the balance of payments as between England and France was unfavourable to the French, if, that is to say, the French demand for sterling was greater than the British demand for francs, the franc tended to depreciate and a point was soon reached at which it became profitable for a Frenchman, instead of selling unwanted francs in the market, to buy gold with them in Paris and ship it to London in settlement of his debt. Any such influx of gold into England tended to raise sterling prices and thus, by stimulating British imports and discouraging British exports, to counteract the exchange movement which had led to the gold shipment. This tendency towards equilibrium was reinforced by the traditional policy of lowering the Bank rate in any centre, and thus repelling short-term investment there, as gold flowed in to that centre, and raising it, with the opposite effect, as gold flowed out. It was an essential feature of these operations that gold shipments were needed only to the extent and for the length of time necessary for them so to modify the relative price levels of the two countries that the balance of payments tended to correct itself.

In those halcyon days before 1914 the gold standard operated successfully and with comparatively small move-

The World Since the War

ments of gold, because London dominated the money markets of the world. By reason of our lead in the development of modern industrial civilisation, by our energy and enterprise, we enjoyed over a long term of years a favourable international balance of payments, and our position grew to be one of immense strength. The technical organisation of the London money market was incomparably better than that of any other centre, and for all these reasons the gold standard was in practice operated by the policy of the Bank of England. The central banks of other gold standard countries followed, as it were naturally and inevitably, the lead of London. This predominance of the London market served no merely selfish national purpose, since it is of the essence of any international standard that by its proper functioning it protects indiscriminately the interests of every country which adheres to it, or by its failure brings disaster to them all.

II. THE WORLD SINCE THE WAR

"The recent world-wide fall in prices is best described as a monetary phenomenon which has occurred as the result of the monetary system failing to solve successfully a problem of unprecedented difficulty and complexity set it by a conjunction of highly intractable non-monetary phenomena."—(The Macmillan Committee, June, 1931.)

FROM whatever angle we examine the economic life of the world since the war, the contrast with the years before 1914 is arresting. We are beginning, indeed, to understand that the war turned the world upside down. For twelve years Europe has lived in peace, yet there is perhaps no period in modern history in which the settled mentality of peace has been more conspicuously absent. Europe has, indeed, illustrated the contrast between war and peace of which Hobbes wrote in *Leviathan*: "The

Great Britain and the Financial Earthquake

nature of war consisteth not in actual fighting, but in the known disposition thereto during all the time there is no assurance to the contrary." France and Germany, Germany and Poland, the Succession States of the Austro-Hungarian Empire—all have been divided by the memory of the war and the terms of the peace, by mutual suspicion and national passions. To the historian this may well appear inevitable, to the economist it can only appear destructive of international economic progress. The war, and even more the Peace Treaties, threw into relief the rights of nationality, and it was an easy, if an illogical, transition from the idea of political autonomy to that of economic "autarkeia." How, if it was wrong for Czechs to be governed by Hungarians, could it be right for Czechoslovakia to be dependent on Hungary for any commodity or any manufacture which it could make shift to produce for itself? On such reasoning, confounding justice with expediency, Europe has sought to organise itself into self-contained communities, defended by prohibitions and restrictions of every kind and buttressed by tariff walls, which were never too high to support another course.

The war left other legacies than economic nationalism, and none which has been a more effective instrument of disorganisation than the settlements relating to war debts and reparations. Unlike every other form of international indebtedness, war debts and reparations are an attempt to repay capital which has served no productive purpose, capital which has added nothing to the wealth of the debtor. The service of that capital, therefore, can never be anything but a surcharge on the industry and trade of the nations which have to meet it. Moreover, time has shown that in practice the problem of the transfer of these vast annual sums from debtor to creditor is in the long run insoluble. Payments between nations can be made only by the export of goods or by the shipment of gold, the sale of foreign assets or fresh borrowing on the part of the debtor. The very scale of the war debt payments made it improbable

The World Since the War

that the debtor countries could so increase their exports as to cover the payments in that way, even if their creditors threw open their doors to the import of goods. Since on balance all payments flowed to France and the United States, and since those countries above all others have insulated themselves against all imports by prohibitive tariffs, payments on account of war debts and reparations have in effect been made mainly by vast shipments of gold to France and the United States. On the other hand, Germany has obtained the necessary funds by raising new loans abroad. It would not be untrue to say that Germany was able to meet her reparations debt for just so long as the United States was prepared to re-lend to Germany some of her gold, and that as soon as the springs of American lending dried up, German default became inevitable.

The world's gold stock in the hands of governments and central banks and the proportions of that stock held by the United Kingdom, the United States and France in 1920, 1926 and August 1931, were these (figures in millions of pounds)* :—

	1920	1926	August 1931
World stock	1488	1893	2323
Holdings in United Kingdom	155	150	133
Holdings in U.S.A. ..	504	840	953
Holdings in France ..	141	146	472

The explanation of these figures is that the movements of gold resulting directly from the war, or the settlements made after the war, were different in kind from those to which the world was accustomed under the normal pre-war operation of the gold standard. The control of the monetary policy of the world passed from the Bank of England and became dependent on international co-operation in conditions which made effective co-operation almost impracticable. What were conceived to be national interests came into greater prominence, and for many and

* Taken from the Federal Reserve Bulletins. Gold in circulation is excluded, recent figures for the whole world not being available.

Great Britain and the Financial Earthquake

different reasons an influx of gold was not consistently treated as between France and the United States, or as between one period and another. From 1922 onwards the gold accumulated in the United States formed the basis of a vast inflation of credit which led through the speculative boom to the collapse of 1929. Between 1922 and 1929 the United States lent abroad more than £1,800 million and thereby diminished the danger to the world of her gold holdings. But foreign lending never became a settled habit of the American investor; even in the heyday of bond issues, a substantial proportion found no permanent home until it came to rest in Europe; and as the prospect was unfolded of apparently illimitable industrial prosperity at home, lending abroad ceased almost as abruptly as it had begun. Since 1929 restriction of credit and falling prices in America have coincided with a rise in the monetary gold stock* from £890 million to its peak of £1,027 million in August last. In other words, gold has merely been buried in the vaults of the banks, and has shared the fate of those other millions immured beneath the Bank of France. France has accumulated gold steadily since 1926. The stabilisation of the franc at a level lower than its internal value created a premium on exports and a large favourable balance of trade, and as the Bank of France is debarred by law from issuing further notes except against gold in its own vaults, the increased demand for currency subsequent to stabilisation led to the repatriation of French balances and to a consequent inflow of gold. The relief from foreign lending was negligible. His political prejudices and the loss of his Russian holdings confirmed the national caution of the French investor, and except for loans made within the last twelve months, primarily for political reasons, to members of the Little Entente, the savings of the French people have remained in France or have been placed abroad at short term.

* I.e., gold held by the U.S. Treasury, the Federal Reserve Banks and Agents and gold in circulation.

The World Since the War

This sketch of the characteristic features of post-war economics would not be complete without some reference to the technical revolution which has taken place in the methods both of industrial and agricultural production. Mass production owes its main impetus to the war and it has changed the face of the world by creating new needs for ever-widening circles of the population. Yet it clearly carries with it a fatal facility in production. It is a mixed blessing to be the owner, let us say, of the most modern and efficient cigarette factory in Greece, if the test of its efficiency is that it can produce more cigarettes in a day than the country consumes. The consequences of over-production are even more serious in agriculture than in industry, since the demand for agricultural products is in its nature less elastic, less responsive to lower prices than that for manufactured goods. A reduction in the price of motor cars may enable any one of us to buy a new car every year instead of every other year, but even if wheat were given away we should hesitate to eat twice as much bread. The effects of the American inflation have nowhere been more disastrous than amongst producers of primary commodities. As by far the biggest consumer of such commodities, the United States by her prosperity immensely stimulated their production, and the stimulus was fortified by the flow of American capital during the brief and not very discriminating excursion of the United States into foreign lending. With the end of the American boom came the end also of American finance, and the unhappy primary producer finds himself with his market ruined and his debt intact.

Great Britain and the Financial Earthquake

III. THE CRISIS OF TO-DAY

IT is not difficult from these premises to trace the collapse of the international credit structure. Once the bubble of speculation in the United States was pricked, the rest followed naturally and *accelerando*. In the autumn of 1929 Americans gave public expression through the stock markets to their doubts whether American industry could continue indefinitely to expand, and from that moment industrial production in the United States, which had already passed its peak, declined precipitately. Commodity prices kept step with it, and the world soon realised that its stocks of, and its capacity for producing, wheat and rubber, cotton and copper, coffee and tin, far outstripped any power of consumption hitherto known. And so the decline in commodity prices became a catastrophic fall, and was followed, at a distance, by a fall in the prices of manufactured goods, due both to the lower costs of raw materials and to the restricted demand amongst primary producers.

Perhaps the most important consequence of any violent drop in world prices is the corresponding increase in the real burden of all indebtedness, whether internal or international. War debts, reparation payments and commercial debts between nations have become intolerably onerous during the last two years. President Hoover's moratorium proposal was a courageous recognition of that fact, but it came too late and was received by France in too carping a spirit for it to prevent or even delay the natural course of events. Debtor countries everywhere have lapsed into default. They have begun to feel with Rabelais that "it is a divine thing to lend: to owe, an heroic virtue." In Europe, as in 1914, so in 1931, the spark was fired in Austria. The collapse of the Credit Anstalt was the first real indication that the organism of international

The Crisis of To-day

banking was infected. The German crisis followed immediately and destroyed the last vestige of confidence by revealing to the world the instability of the structure erected in central Europe on borrowed money. Financial panic follows the lines of least resistance, and there were many good reasons why in the universal disorder the pound sterling should have been next singled out for attack. It was well known that we were heavily involved in central Europe, that our budgetary position was unsound and that our balance of payments was unfavourable.* Once the world ceased to trust it, sterling was doomed. The technical weakness of our position made its defence a forlorn hope. For a variety of reasons short-term holdings in London on foreign account had increased since the war and in March of this year amounted to over £400 million; there had been no corresponding increase in our liquid foreign assets, and if we regard the London market as a vast deposit bank, its position was unsound in so far as it was powerless to resist a run by its depositors.

A loss of confidence, in the realm of finance, knows no frontiers and is not amenable to reason. If it exists, it penetrates like some foul gas into every nook and crevice of the financial structure. Having sold sterling off the gold standard, the world began to sell dollars. Since the beginning of September gold has been withdrawn from the Federal Reserve system of the United States or earmarked there on foreign account to the amount of \$692 million. Both in America and in France, mistrust of banks and the banking system has led to the hoarding of currency on a large scale. Wisdom suggests that the end is not yet.

There can be no better illustration of the varied financial problems which confront the world to-day than a brief sketch of the situation in the three contrasted countries of Germany, Hungary and Brazil—the first a great industrial nation which circumstances have turned into a debtor

* Tables showing the balance of international payments of the United Kingdom and of the U.S.A. will be found in an appendix.

Great Britain and the Financial Earthquake

country, the second an artificial product of the war, and the third representative of that new world of vast resources only partially developed.

Of the political and spiritual adventures of the German nation during its wanderings in the desert since 1918, another article* in this number of *THE ROUND TABLE* will speak. Its financial history during that period has been dominated by the devaluation of the old mark and the pressure of reparation payments. Inflation and the destruction of the currency left Germany without capital and without the will to accumulate it. German public authorities and German industry have lived since 1923 primarily on borrowed money, and like everyone else who lives on borrowed money, have not always spent it wisely. It has constituted their working capital and the source from which capital improvements have been carried out. It has also provided the foreign exchange necessary for reparation payments. The figures are no longer open to serious dispute. The Committee of Bankers which met at Basle in August of this year found that between 1924 and 1930 there was a net influx of capital into Germany of £910† million, and that in December 1930 German foreign indebtedness amounted to £1,275 million. The net capital influx, supplemented by £150 million derived from invisible exports, provided the interest on Germany's commercial debt, an import surplus of £315 million and reparation payments of £515 million, and in addition enabled Germany to increase her holding of gold and foreign exchange by £105 million. Of the total foreign indebtedness of Germany at the end of 1930 £515 million was short term, and by the end of July of this year this figure had been reduced, through withdrawals, to £400 million.‡ This in itself explains the German crisis of this last summer. To

* See p. 71.

† As possibly more quickly comprehensible to an English reader, all figures are given in sterling at RM. 20 to the £.

‡ The German authorities have recently published figures which suggest that the totals are considerably greater than was thought in August.

The Crisis of To-day

meet this situation Germany has been compelled to obtain a moratorium on her short-term liabilities, to foreigners (the so-called "Standstill Agreement," which expires at the end of February next) to introduce government solely by decree and by decree to control and regulate the financial and commercial activity of every German citizen, and to devote all the efforts of her industrial organisation, at whatever cost in the impoverishment of the German people and the further lowering of their standards of life, to the creation of an increasing export surplus. In the judgment of the Bankers Committee, the imperative need of Germany is for long-term credits in partial substitution for and in addition to her short-term credits, and on the same authority this is a need which cannot be met until a political *modus vivendi* is reached with her neighbours and the reparations debt is dealt with on rational lines.

Hungary is a predominantly agricultural country with an industrial superstructure which has survived from a former existence. Industries planned for the Austro-Hungarian Empire, with a home market of 46 million people, cannot prosper in a market reduced to 8½ millions and surrounded by hostile and protectionist neighbours. Only the richness of Hungarian soil and the character and energy of her agricultural population have brought Hungary through the perils of communism and currency depreciation and the economic follies of the Peace Treaty. But when Hungarian agriculture is undermined by the catastrophe of prices, there is nothing left. The figures are eloquent. Between 1927 and 1930 an unfavourable balance of £47½ million* was covered entirely by foreign borrowing at long and short term. The total foreign debt is now £146 million and the annual service nearly £11 million. Most of this debt was incurred with wheat at 30 pengö : to-day's price is 9 pengö. The result, as in Germany, is an enforced moratorium on the short-term foreign debt, and a frantic endeavour,

* Converted at 28 pengö to the £.

Great Britain and the Financial Earthquake

prompted in this case by Geneva, at all costs to increase exports and curtail imports.

Brazil has fallen on similar troubles by another road. The very extent of her territory and its heterogeneous population create administrative problems which in the most favourable circumstances must retard and impede the exploitation of her immense natural resources. Yet, in the past, development has proceeded, at its own gait—and with many set-backs—but still surely. Foreign borrowing is rightly the first condition of Brazilian progress, and Brazil has been on the whole a good debtor, in spite of a unique talent for the progressive devaluation of her own currency. In recent years the long-term foreign debt of the Federal Government, the States and other public bodies has grown rapidly, and by 1930 it amounted to £282 million.* This movement synchronised with a rising price for coffee, which has always been the principal article of export. Trusting to her dominant position in the coffee trade, Brazil began in 1925 to “defend” coffee, that is, to maintain its price artificially. By the act of God, which brought two record crops in three years, and by the working of economic law, which ensured that rising prices should lead to over-production, the defence scheme broke down as soon as commodity prices in the United States began to fall. Brazil was left with large stocks of coffee which no one wanted, and after reaching an average price of £5 a bag in 1928, the price has fallen to £1 18s. (the average for the first 8 months of 1931). The effect on the Brazilian balance of payments was disastrous. In 1928 the value of coffee exports was nearly £70 million out of a total of £97½ million: in 1930 the figures fell to £41 million and £66 million.† As Brazil’s requirements of foreign exchange to meet her debt service and private remittances abroad have remained constant in the neighbourhood of £40 million, and as further foreign borrowing

* *Vide* Sir Otto Niemeyer’s Report to Brazilian Government, July 1931.

† See the official statistics of the Federal Government of Brazil.

Great Britain's Problems

is out of the question, it is not difficult to understand that the recent partial default by Brazil on her foreign obligations was unavoidable. British investments in Brazil are estimated at about £300 million and the effects of this default on our own balance of payments are thus patent.

IV. GREAT BRITAIN'S PROBLEMS

"Mr. Jones, at the meeting of the Proprietors of the Bank of England, September 13, 1866, gave it as his opinion that 'the main cause of the recent monetary crisis was that while we had bought £275 million of foreign produce in the year 1865, the value of our exports had only been £165 million, so that we had a balance against us to the amount of £110 million.'"—(*Economist*, September 22, 1866, quoted in Bagehot's *Lombard Street*.)

IN the chaotic world which has been described, the situation of Great Britain can now be seen in its proper setting. The main facts are well known and those who wish to follow them in detail through a statistical demonstration will find them conveniently set out in a recent article* by Mr. C. G. Clark. It is not difficult to imagine what would have been the observations of Bagehot's Mr. Jones to his fellow Proprietors after reading the figures of the last few years. In the first place, the value of exports has steadily fallen: these are the gold values in millions of pounds:—

				1931 (annual rate).		
				1st	2nd	3rd
1913	1926	1929	1930	quarter	quarter	quarter
525	653	729	571	413	383	373

Expressed as a percentage of the aggregate exports of all manufacturing countries, our exports have fallen from

* Statistical Studies of the Present Economic Position of Great Britain. *The Economic Journal*, September 1931.

Great Britain and the Financial Earthquake

almost 26 per cent. in 1925 to less than 20 per cent. by the beginning of 1931. Simultaneously manufactured imports have assumed a growing importance: the percentage relation between manufactured imports and our total home production of manufactured goods has risen from 11.9 per cent. in 1924 to 15 per cent. in 1930. The loss of export trade has been a main cause of unemployment. The number of insured workers in employment in, or in connection with, the export trades was 2,175,000 in 1924, 2,200,000 in 1929, and 1,400,000 in March last. It is significant by contrast that employment in the consumption industries has hardly decreased at all since 1929.

The two main causes of these changes are that our industries have not been competitive and that some of our best markets, such as India and Australasia, have felt the full force of the depression. We have ceased to be competitive because for many reasons our costs have proved inelastic. Our money costs have been too high in terms of gold relatively to costs in other countries. Real wages in England in 1930 were 21 per cent. higher than in 1914, and 10 per cent. higher than in 1924. Our basic industries have lost the power to make profits, with the result that capital expenditure, enterprise and development have tended to be restricted, while the demand for consumable goods has been maintained and imports encouraged by a high level of money incomes. In such conditions, adjustments must be made voluntarily and in time, or they will be imposed by an increasingly unfavourable balance of payments. Mr. Clark gives a table which would indicate that since 1924 this country has on one occasion only, *i.e.*, in 1929, shown an actual net credit on her balance of payments after including new overseas issues, and that there must have been an influx of new foreign money into the country during those years of nearly £300 million. In 1930 the balance available for new lending abroad was only £39 million, and with the rapid subsequent deterioration both in exports and in our income from investments and

The Conditions of World Recovery

services it seems certain that the unfavourable balance for 1931 will be anything from £50 to £100 million. Although the collapse of the sterling exchange was in the end accelerated by the central European crisis and the general atmosphere of panic, all the indications are that it could not have been long deferred.

V. THE CONDITIONS OF WORLD RECOVERY

FEW of us are interested in diagnosis without cure, and the question what the world can do to be saved awaits an answer. Our own belief is that the road to recovery bristles with difficulties and that there is no short cut to prosperity. It is only necessary to examine any aspect of the problem as we have attempted to unfold it for it to be apparent what a decisive part human folly and human weakness have played in the past and how improbable it is that humanity will in a night acquire wisdom and strength and tolerance.

Take the German situation. At the end of February the Standstill Agreement will expire and the bankers of the world will be free to call in short-term credits amounting to £400 million, or, if the latest figures are correct, to considerably more. In July Germany will, in default of an extension of the Hoover moratorium or some new arrangement, again become liable for the payment of about £81 million a year on reparations account. It is certain that Germany cannot pay off her short-term obligations at maturity and that the resumption of large-scale reparation payments would be followed by disastrous consequences both to Germany and to the rest of the world. What are the omens at the moment? The Hoover-Laval agreement throws the reparation problem back on Europe, and the only procedure contemplated appears to be that Germany should appeal under the Young Plan to a committee which is debarred by the terms of that Plan from

Great Britain and the Financial Earthquake
considering at all the unconditional annuities of £31 million. French public opinion has urged that reparation payments should rank before bank credits, and as France is entitled to 51 per cent. of the full annual payments under the Young Plan and to 82 per cent. of the unconditional payments, whereas her claim as a short-term creditor of Germany is only a fraction of those of Great Britain and the United States,* this attitude is intelligible. Yet there could be no more serious obstacle to world recovery than that the French view in this matter should prevail. It is easy at this date to criticise the bankers of England and America for granting facilities to Germany which are now seen to be excessive: it is easy, too, to forget that without those facilities neither reparation payments nor remittances directly or indirectly dependent on them in settlement of war debts could ever have been made. But the criticism is irrelevant. The debts exist and will not be renewed under any arrangement which leaves the fundamental causes of German embarrassment untouched. International banking is the life-blood of world trade, and if its resources are to be congealed and their free flow interrupted, not the bankers only, but the whole world will be crippled. By a pleasant irony the same stroke will end reparation payments for ever. Unless a settlement can be reached within the next few months which will make Germany again a fair credit risk, the outlook will be black indeed. If, on the other hand, it should prove possible by the abandonment of reparations and other non-commercial international debts to remove from world economy a burden which has been found intolerable, a major cause of world depression will have disappeared.

It has become abundantly clear, to take another point, that half the economic problems of the world are insoluble at the present level of prices. Debtors cannot hope to

* Of the credits to German commercial banks, for which detailed figures are available, the United States on July 31 last held 37 per cent., Great Britain 24 per cent., Switzerland 13 per cent. and France under 7 per cent.

The Conditions of World Recovery

meet their obligations by following what appears to be the prevailing fashion and practising, in a phrase used by the *Economist*, "the self-contradictory policy of exports without imports." They would be unwise, even if lenders appeared over the horizon, to attempt to meet their debts by further borrowing. A rise in prices may well seem the only alternative to *tabula rasa* and a fresh start. In present conditions the course of gold prices depends primarily on the monetary policy of France and the United States. If they wish, it is in their power, so long as they remain on the gold standard, to raise their domestic price levels by adding to the currency and credit available up to the limit permitted by their existing legislation and beyond that, if necessary, by reducing the legal minimum cover held in gold against their note circulation and their sight liabilities. If they hesitate to take that step, it is probably because they recognise that it is easier to set on foot an inflationary movement than to control it. But the choice is a choice of risks, and the consequences of a continuance of their present policy are hardly open to doubt. The sterilisation of gold on the scale on which it is now practised in France and America reacts in the end on the owner, and no country can in the long run maintain the position of a creditor nation enjoying a large export trade if it refuses either to buy or to lend abroad. Nor is it likely on such premises, and without a redistribution of gold stocks, that the gold standard itself can survive.

America and France are extreme but not isolated devotees of high tariffs. The same regime prevails in half Europe and in many of the new countries of the world. It has been reinforced by the organised "defence" of this or that commodity. It is idle to expect the reasoning which has created this regime or the interests which have grown up with its protection to crumble into ruin, like the walls of Jericho, at the blast of a trumpet. Even to-day, notwithstanding the pressure of harsh economic necessity,

Great Britain and the Financial Earthquake

self-sufficiency is still the prevailing gospel, and it is to be feared that nothing but a long and painful process of education will expose its inadequacy.

To indicate, however summarily, some of the elementary conditions of recovery is sufficient to throw into relief the formidable difficulties which they present—difficulties of politics, of national psychology, of economic ignorance. Can such difficulties be quickly overcome? The Washington correspondent of *The Times*, at least, seems to have no illusions on that score. As these lines are being written, this* is his verdict on the American prospect.

The present position of the United States is not in doubt. This country will take no further initiative in matters economic (Mr. Hoover's moratorium proposal will have no successor), and it will have no contribution, in the form of international responsibility openly undertaken, to make to the problem of the organisation of peace. If there is a way out of European troubles, it is clear that Europe must find it without direct American assistance. . . . There are signs, moreover, not only that the world's greatest creditor nation will leave its tariff policy untouched, but also that in the years immediately to come it may be an exporter of capital to a very insufficient degree.

VI. GREAT BRITAIN'S TASK

WE may well ask what should be the objects of British policy in a world so distraught. The nation is still immersed in the novelty, the uncertainties, the exciting possibilities of an emancipated currency. It has observed the first faint dawning of a trade revival. It understands vaguely that there is now a premium on exports, a penalty on imports. Immense stocks held in the country have combined with the unbridled competition of our foreign purveyors to postpone any appreciable rise in prices. For the moment we have most of the advantages of currency devaluation with few of its countervailing drawbacks. Our objective must be to retain that happy position for as

* *The Times*, November 7, 1931.

Great Britain's Task

long as we can and to employ the respite in correcting our essential weaknesses.

The first of these is our adverse balance of payments, and the shortage of liquid foreign assets held by our Central Bank. If trading conditions throughout the world were normal, it is probable that the advantage for our export trade of a pound at \$3.80 would suffice, at least temporarily, to redress the balance. But trading conditions are not normal, and in many markets even cheapness cannot stimulate buying. It may be necessary to add some form of statutory discouragement of imports, but there should be no illusions as to the dangers of such a weapon since we went off gold. When once a currency has dragged its anchor, it is exposed to all the force of wind and waves, and this is true to an exceptional degree of a country so dependent as ours on its imports for the necessities of its existence. If for any reason, whether currency depreciation or customs duties, or the refusal of any class to make reasonable sacrifices, a rise in our level of money wages is forced on us, we shall find our budget equilibrium endangered, our balance of trade still further deteriorating, and the pound launched on the slope to Avernus. The test of success in our monetary policy in the near future must be our power to attain relative stability of the pound.

At what level should we seek stability? Only time can show. It is folly to expect either too much or to aim at too little. There are some, no doubt an insignificant minority, who would like to see the pound back at the old exchange level. That yearning is unlikely to be gratified, except by the depreciation of other currencies and not by the appreciation of ours, and if it were we should groan under the burden for a generation. Others are ready to assume that by the devaluation of the pound we can halve the National Debt. Even that is possible, but at the risk of finding it not halved, but eliminated, and with it the accumulated savings of the nation. The true object of policy must be the *de facto* stabilisation of the pound at a level which

Great Britain and the Financial Earthquake

does not require an increase in present wage rates. That level can only be found by trial and error, by a deliberate effort to keep fluctuations in sterling within ever narrowing limits. If we can hit the mark, the ultimate revival of trade and industry will lighten the burden of all budget charges, and though the ratio between the service of the National Debt and the total of the budget may not be materially altered, the buoyancy of the revenue and the creation of conditions favourable to conversion schemes will make the debt service less intolerable.

By *de facto* stabilisation we mean stabilisation without the anchorage to gold. If comparative stability can be combined with a free market in forward exchange, most of the practical objections to a currency divorced temporarily from gold lose their force. Even the sterling bill, backed by the unrivalled facilities of the London market, need not despair. In the view of THE ROUND TABLE, it would be little short of madness for us to link the pound again to gold until it is clear that international conditions will permit of a more normal working of the gold standard than we have seen since the war. At the moment the gold standard has little reality outside France and the United States. If Germany and Hungary and Poland and South Africa* still profess adherence to it, that adherence is maintained only by a formal or informal restriction on the transfer of funds. The individual who finds that, because South African exporters refuse to pay the premium necessary to repatriate their export balances, he himself must resort to the subterfuges of the underworld in order to withdraw £1,000 from his bank in Cape Town and remit it to London, may well regard the latest practice of the gold standard with a certain cynicism. The wise course is to face the fact that the international regulation of the exchanges through the medium of gold has broken down, and to wait on events.

For these tasks which confront us this country is not with-

* For an account of the reasons why South Africa is endeavouring to keep to the gold standard, see p. 188.

Great Britain's Task

out resources, moral and material. The Government can rely on the declared determination of the nation to see the thing through. It need have no anxiety as to the fundamental soundness of our banking system or the resilience of the most highly organised money market in the world. We are still the greatest creditor nation, with immense assets abroad, even though they are not in present conditions readily realisable. Even internationally, as an offset to our relative temporary financial weakness and our diminished financial prestige, we have the knowledge that the world wants us back on gold as soon as possible and that it lies with us to say when we shall go back. These are days not for optimism nor yet for despair; and if the march of events should allow Mr. Ramsay MacDonald to relax into a mood of relative cheerfulness, he may well call to mind the words which Abraham Lincoln, in a crisis of the Civil War, addressed to his Cabinet: "*Now, gentlemen, we have got our harpoon into the monster, but we must still take uncommon care or else by a single flop of his tail he will send us into all eternity.*"

Great Britain and the Financial Earthquake

APPENDIX I. BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED KINGDOM.*

(In millions of £.)

	1913	1924	1925	1926	1927	1928	1929	1930
Commodity imports (retained) ..	659	1,137	1,167	1,116	1,095	1,076	1,111	958
Commodity exports ..	525	801	773	653	709	724	729	571
Visible unfavourable trade balance..	134	336	394	463	386	352	382	387
Net movement of gold ..	- 24	+ 12	+ 12	- 12	- 4	- 7	+ 16	- 5
Excess of imports of commodities and gold ..	158	324	382	475	390	359	366	392
Excess of Government expenditure overseas ..	—	25	11	—	—	—	—	—
Total of debit items ..	158	349	393	475	390	359	366	392
Excess of Government receipts from overseas ..	—	—	—	—	—	—	—	—
Net national shipping income ..	95	140	125	4	1	15	24	21
Net income from foreign investments	210	220	250	270	270	270	270	105
Net receipts from Financial and other services ..	35	75	75	75	75	80	80	70
Estimated total net credit balance ..	182	86	57	6	96	136	138	39
Estimated total net debit balance ..	198	135	88	122	139	144	95	109
New issues for overseas ..	—	—	—	—	—	—	—	—

* Compiled from the estimates of the Board of Trade and the Midland Bank Ltd.

Great Britain and the Financial Earthquake

APPENDIX II.

BALANCES OF INTERNATIONAL PAYMENTS OF THE UNITED STATES, CALENDAR YEARS 1922-1930. * (In millions of dollars)

Class of transactions (gross or net)	1922	1923	1924	1925	1926	1927	1928	1929	1930 (unrevised)
COMMODITIES (Adjusted)									
Exports	4,121	4,368	4,834	5,177	5,044	5,091	5,333	5,447	4,097
Imports	3,419	4,162	3,952	4,544	4,766	4,508	4,488	4,799	5,339
Balance of trade (adjusted) ..	+702	+206	+882	+633	+278	+583	+845	+648	+758
MISCELLANEOUS INVISIBLE ITEMS.									
Freight: Ocean, Great Lakes and railway (net)	-79	-83	-64	-84	-95	-66	-32	-66	-96
Expenditures by American tourists:									
Canada and Mexican frontier	-100	-131	-159	-185	-201	-231	-293	-334	-322
Overseas, including West Indies	-345	-313	-374	-400	-422	-465	-531	-534	-429
Expenditures by foreign tourists:									
in United States	+87	+104	+107	+112	+148	+163	+163	+183	+171
Ocean-borne passenger traffic ..	+53	+60	+53	+63	+69	+89	+44	+47	+49
Interest on American private funds abroad (long and short term) ..	+555	+594	+635	+689	+740	+800	+896	+979	+904
Interest on foreign funds in United States (long and short term) ..	-144	-180	-192	-229	-268	-281	-359	-414	-310
War-debt receipts (principal) ..	+32	+92	+23	+26	+35	+46	+50	+62	+77
War-debt receipts (interest) ..	+126	+167	+160	+160	+160	+160	+157	+145	+164
Other governmental transactions (net)	-46	-66	-53	-61	-49	-29	-57	-92	-81
Immigrant remittances (net) ..	-255	-229	-229	-235	-218	-206	-218	-223	-166
Charitable and missionary contributions	-75	-70	-55	-50	-46	-49	-51	-49	-49
Other items (net)†	+46	+57	+68	+74	+74	+74	+24	+25	+7
Total, commodity and miscellaneous (net)	+557	+208	+802	+513	+205	+588	+658	+377	+617
NEW PRIVATE LOANS, INVESTMENTS AND DEPOSITS									
Net increase in American long-term investments abroad (par value) ..	-857	-258	-869	-872	-808	-972	-1,377	-791	-406
Deduct bond discounts and underwriters' commissions on above ..	+101	+48	+125	+119	+121	+119	+122	+26	+66
Net cash payments for above ..	-756	-210	-744	-753	-687	-853	-1,195	-765	-340
Net increase in long-term investments in United States by foreigners	+3	+240	+11	+193	+147	+158	+477	+446	+50
Change in net debt of American banks to foreigners	+375	+3	+216	-61	+359	-	-226	+13	-443
Net private capital movement (long and short term) ..	-378	+33	-517	-621	-181	-695	-944	-306	-733
OTHER BALANCING ITEMS.									
Gold shipped or earmarked (net) ..	-234	-295	-216	+102	-72	+154	+272	-120	-278
Shipments of American paper money (net)	+40	+50	-20	-30	-	-	-	-	+20
Add for net discrepancy due to inaccurate figures, omissions, etc. +	+15	+4	-49	+36	+48	-47	+14	+49	+374

* From Trade Information Bulletin No. 761 of the U.S. Department of Commerce.

† Largely a deduction from American tourist expenditures overseas.

‡ Includes insurance, motion-picture royalties, cable charges, Canadian electric power, press subscriptions, patents and copyrights, and advertising.

THE EUROPEAN PROBLEMS OF THE UNITED STATES

I.

NO doubt you will recall the trouble Alice had with her flamingo; "generally, just as she had got its neck nicely straightened out, and was going to give the hedgehog a blow with its head, it *would* twist itself round and look up in her face." But perhaps that's the way of the flamingo, as it most certainly is the way of the Post-War Problem.

Take, for example, the matter of making Germany pay for the war. At the outset, in 1919, the principles were clear; Germany had been guilty of causing it, now she must pay for it. These two indisputables were written into a treaty, and thereby became what might be called the Paris idea. But the German people at once repudiated the admission of guilt which their representatives had signed; and, I dare say, began to consider how they might also avoid the financial obligations which these same representatives had undertaken. At all events, the German mark became worth next to nothing three years later; so her creditors, fearing communism in the Reich, concluded that it would be a good thing, a "stabilizer," if the annual payments to be made on reparations account were fixed in figures, once and for all. Perhaps that might be called the Dawes idea.

The schedules were so fixed, and became effective on September 1, 1924. Mr. Parker Gilbert was appointed Agent-General for Reparations, the mark was restored to a

The European Problem of the United States

gold basis, and the United States began to make loans to Germany. Indeed, in less than five years, from September 1924 to the spring of 1929, American investors managed to advance the sum of \$1,185,000,000 on a long term basis to the German Government, its States, municipalities and industries. Then suddenly, and chiefly because of the greater speculative attractions of New York Stock Exchange, the eastward flow of loans dried up. Germany's financial condition, we heard, was again critical; and we were told that this situation arose from the fact that though her annual payments had been determined, the total figure had not been fixed, nor the period of years over which the payments were to run. Out of a third international conference emerged the Young idea—that the total figure should be \$27,641,942,800 and that reparations annuities should be spread out over three generations.

So in September 1929, with the flamingo's neck all straightened out, the game began again. Two hundred and fifty million dollars more went out of American savings into German bonds, and American bankers continued to extend three and six months' accommodation to German borrowers, running to perhaps seven hundred million dollars more on the average. Thus between the end of 1924 and July 1, 1931, we had made fresh loans to Germany amounting to about \$2,100,000,000; out of which, or as a result of which, Germany managed to pay to her creditors on reparations account the sum of \$2,600,000,000. These creditors in turn, being indebted to the United States, paid somewhat less than two billions of it back.

In June of this year, following the collapse of the Credit Anstalt in Vienna and its rocking repercussions on German private finance, Germany walked on the edge of ruin for the third time since the war. The official manifesto published in Berlin on June 6 stated that the Government had now imposed upon its citizens all the privations which they could possibly endure: that the financial situation of the Reich, seriously menaced, required that Germany be

The European Problems of the United States
relieved of reparations ; and that the economic fabric of the world was in danger of being rent to pieces. This declaration, in terms of international finance, meant at least these things : that Germany believed she could not (and even if she could, perhaps would not) make any further payments on reparations account ; that, unless help were immediately forthcoming, the principal of her external private loans might be lost to the foreign investor, and the short-term banking advances still lying in Germany might never be returned to England, the United States and France.

The financial crisis revealed by Brüning's manifesto of June 6 was in part caused, and in part further aggravated, by the withdrawal of foreign balances from Germany. It is said that total withdrawals for the first two weeks of the month reached a sum equal to £40,000,000. For this exhibition of panic psychology, the London fraternity was quick to blame "the inexperience of American bankers," but Wall Street, in turn, has more than a suspicion that English banks, nearer to the situation, had silently begun to drain off their own German credits some weeks before New York took fright. In fact, the problem of fixing the blame becomes more complicated as time goes on. Staid old Alexander Dana Noyes of the *New York Times* financial page speaks on October 30 of "the part that the Paris banks played in the panicky snatching, directly or indirectly, at their German credits." What, France too ? Better to let the quarrel pass ; for as in the mooted question of who started the war, and the footling question of who won it, the "effective cause" will probably never be determined.

It is enough to remember that there was (and on November third there still is) in Brüning's broadside something more than a warning, something more than a cry for help. There was and there is the cream of a tragic jest. For if a general default of German privately held external debts were to take place, and if the books of reparations and war

The European Problems of the United States

debts were to be closed, an accounting would show the American people to be \$2,000,000,000 better off in the Treasury of the United States, and \$2,000,000,000 worse off in the value of their private investments. It would show the German Treasury some \$2,600,000,000 out, and (including private loans from citizens of the Allied countries) a far greater amount in. Or nothing in for the United States and nothing out for Germany, and a fine deficit on balance for England. For France, about as much as she suffered from the physical havoc of the war. All that we would then need to put us back to 1914 would be a revision of the territorial clauses of the Versailles Treaty (which is under discussion) and the return of Germany's colonies to her rule (which may yet be the price demanded by a Hitlerite Germany for her co-operation in international recovery). Back, in broad outline, to 1914, with 8,750,000 dead, more than 21,000,000 wounded, seventeen years of bitterness, high nationalism and suspicion—stupendous internal debts in the English-speaking countries, their partial repudiation in Germany and France—and for the millions of dead and the billions of waste—not even on the basest reckoning one compensating penny anywhere to show for it. God help us!

And yet might we not have another war—just a little one? It wouldn't cost much more money or many more men. Just a limited affair which would expedite this matter of returning Germany's colonies to her and of revamping some of those mistakes in territorial arrangements which crept into the Treaty of Versailles. It would only cost a couple of millions and billions respectively, and at its end we could let the devils of hell off the leash and invite them all to dance and sing to their hearts' content over the litter we have made of our lives.

The European Problems of the United States

II.

ON June 20 last, President Hoover made a memorable offer, "The American Government proposes the postponement during one year of all payments on inter-governmental debts, reparations and relief debts, both principal and interest, of course not including the obligations of governments held by private parties . . . to give the forthcoming year to the economic recovery of the world, and to help free the recuperative forces already in motion in the United States from retarding influences abroad." This was the Hoover idea.

It did seem to us across the Atlantic that the Germans were unusually stupid in pressing the *Anschluss* with Austria, parading the *Stabhlhelm*, and announcing a second "pocket battleship" in a period of such crisis. It did seem that the French were incredibly small in withholding their support of the plan through sixteen anxious days, while the economic structure of the so-called civilized world and the political structure of Continental Europe swayed back and forth toward the angle of break. These things probably have lost their importance, if they haven't, the historian will take care of them. He will also leave a record of the fantastic fortnight that followed France's deferred assent—statesmen and bankers came and went, here, there, and everywhere.

And thick and fast they came at last,
And more, and more, and more.

Luther on the wing, to London, Basle, Berlin and Basle ;
Montagu Norman on his heels ; Henderson in Paris,
Stimson in Rome, with Mellon joining him in Paris from
the Riviera ; Brüning to Rome and to Paris—and finally
their trek to London on July 20 to attend a conference at the
invitation of the British Government, exactly one month

The European Problems of the United States after the President of the United States had made his offer.

The Conference met, discussed matters for three days, and rose—without breaking up. This alone was an achievement, for its powers were uncertain, its terms of reference were vague, and the atmosphere was charged with bitterness and recrimination. But what is more, the Conference made certain definite proposals: one led to a six months' moratorium on German short-term private debts arranged by a committee from private financial institutions of the creditor countries; the other resulted in a summary study of Germany's financial situation, with particular reference to the conditions under which long-term lending might be resumed. The report deplored the lack of confidence among nations, suggesting an economic rapprochement between Germany and France; it called attention to the growth of tariff barriers as an impediment to international trade, and urged a reconsideration of the problem of inter-governmental debts. Thus the committee of bankers gave back to the statesmen the task which the statesmen at London had put upon them. A month had been lost, but by this procedure much more was gained; and what first looked like an evasion of responsibility on the part of the Conference turned out, in the end, to be a stroke of genius.

Mr. Hoover's offer had been well received both in this country and abroad. Even the French authorities, while resenting the way the plan was pushed at them, did not look with disfavour upon the proposal itself. It provided relief at a tense moment in the affairs of international finance, and it encouraged a hope abroad that the United States might go still further toward cancellation of debts and membership in the League of Nations. This expectation was increased when Messrs. Stimson and Mellon attended the London Conference, not as "unofficial observers" nor in any other such ambiguous capacity, but as accredited representatives of the American Government; and it swelled perceptibly, during the Manchurian crisis

The European Problems of the United States

of October, when Mr. Prentiss Gilbert was instructed by Washington to sit with the Council of the League. These incidents seemed to mark a change in the spirit and technique of American foreign policy. Hoover, long reined in, had taken the bit in his teeth and had started down the road. So it may have appeared; but the inference is hardly justifiable. For Woodrow Wilson started down the road alone twelve years ago, with disastrous results, and it is doubtful whether any other Chief Executive of our generation, in his senses, would be willing to try the same course again. Indeed, when Congress meets in December and the President is called to account (as he undoubtedly will be), many of Hoover's best friends want him to make it clear that the London appointments and the instructions to Gilbert were employed as the only means to meet the worst crisis in the great depression, and that there is no thought of following their implications any further. That ought to be a satisfactory explanation of the status given to Mr. Stimson and Mr. Mellon; but it will not be so easy to justify Mr. Gilbert's rôle at Geneva. For his appointment was not a thing by itself: it followed assurances by the Secretary of State that the United States stood ready to "reinforce" the League in the Manchurian matter. In 1919, when the Covenant of the League was being drafted in Paris, a certain distinguished statesman observed that, in his opinion, Article 10 was dangerous. "Either it means something revolutionary in international affairs, or else it means nothing. In either case it should be left out." The use of the word "reinforce" is subject to the same objection. Just how, if you were a drafting clerk in the Secretariat at Geneva, would you translate that word into French? And would you be sure that the French verb you chose correctly carried the same admixture of military, economic and moral horsepower that Mr. Stimson had in mind when he used it? More will be heard of this Geneva incident before Congress adjourns next spring.

The European Problems of the United States

In the *New York Tribune* of October 13 Walter Lippmann shrewdly suggested the possibility of projecting this "action" on to another plane :

The precedent thus established (he wrote) is more than ample for reaching an excellent understanding with M. Laval when he arrives. M. Laval will not expect us to ratify the Covenant, and no informed Frenchman is asking the United States to sign a diplomatic blank check. But if the Administration is able to point to the Manchurian action as a precedent, and to say to France in terms which satisfy the French instinct for lucidity that the precedent can be relied upon in the future, it should be possible to make immense progress in the reduction of armaments and the stabilization of Europe.

If this intimation was given to M. Laval by Mr. Hoover, it evidently did not work as a substitute for a security pact. Being unwilling to accept the one, and being unable to get the other, M. Laval seems to have decided to let well enough alone. Indeed, his position is even happier than that, for first among the souvenirs of his flying trip to the United States he cherishes Senator Borah's incredible and lovely gift—the Senator's admission that French armaments and French security are matters to be gauged by the judgment of France alone.

III.

"THE question is," said Humpty Dumpty, "which is to be master—that's all?" The answer is—France.

On October 25 President Hoover and M. Laval issued a *communiqué*, stating that they had "canvassed the economic situation in the world, and the trends in international relations bearing upon it; the problems of the forthcoming conference for the limitation and reduction of armaments; the effect of the depression on payments under inter-governmental debts; the stabilization of the international exchanges and other financial and economic subjects." They laid stress upon "the importance of monetary stability as an essential factor in the restoration of the normal economic life

The European Problems of the United States

in the world, in which the maintenance of the gold standard in France and the United States will serve as a major influence." They felt that before next June some agreement regarding inter-governmental payments "may be necessary covering the period of business depression," and they thought that the initiative in this matter "should be taken at an early date by the European Powers principally concerned within the framework of agreements existing prior to July 1, 1931." The United States thus turns over to France the initiative with regard to inter-governmental obligations, holds out the possibility that Allied debts due to the United States will be reduced once reparations have been scaled down, and abandons the idea of making progress in the near future in the matter of disarmament. In return France appears to agree to stop drawing gold out of New York except in orderly fashion and for substantial reasons. These conclusions are open to no other interpretation than that the United States abdicates, in favor of France, the position of leadership which she assumed on June 20 through Hoover's proposal for a moratorium. France evidently wants the power which such a position brings: so in that respect M. Laval won a striking victory. It must be set down as a rather empty triumph, however, for, if one thing is clear, it is that the United States is quite prepared to surrender leadership to France or to any other appropriate and responsible government.

For the past ten years, or to be more exact, ever since the funding of the British debt to the United States, the policy of Washington has, in the main, moved along parallel lines with that of London. If Germany and France were at variance with each other over the Ruhr, reparations, or the German-Austrian customs union, the two Anglo-Saxon countries were inclined to support the German point of view. So far as the United States was concerned, this policy was expressed in public opinion rather than in governmental action; but whenever private

The European Problems of the United States

American citizens served on European committees formed to deal with European problems, they tended to listen sympathetically to Germany's complaints, and to act as a restraining influence upon French demands. England and the United States, officially and unofficially, pursued their separate courses of action under a set of common principles.

The extreme case, of course, occurred in June, when the plan for a one-year moratorium was devised and announced pursuant to an agreement between American and British authorities, without consulting Paris. At that signal France displayed an unexpected independence. Her financial position had become strong, her industrial position was not weak, her diplomatic position on the Continent was solid. For more than a fortnight she held the rest of the world in suspense while she exacted certain modifications in the Hoover plan to meet her views. The decision of the World Court against the German-Austrian customs union gave her encouragement: the visit of Brüning to Paris strengthened her sense of power. Then London began to feel the effects of a run on her gold and, in the end, had to suspend the gold standard. The American people received this announcement "more in sorrow than in anger." Banks with London credit balances took their losses in good spirit. It seemed to be the general feeling that England had once restored the pound to par by sheer force of will; but that the burden of keeping it there had become too heavy for her to sustain. Such was the friendly personal view. But common sense suggested that the financial objectives of the United States and England might no longer be the same: and that it would be illogical to continue a now uncertain partnership to the further alienation of French goodwill. It is doubtful whether Hoover and Laval did reach, or ever could reach, a partnership in the Anglo-Saxon sense of the term; but it is certain that they arrived at a *modus vivendi* under which the next chapter of reparations and war debts will be written.

The better informed opinion in the United States has

The European Problems of the United States

found an excellent spokesman in Mr. Thomas W. Lamont, of J. P. Morgan and Co. In the *Saturday Review of Literature* of October 31, 1931, in the course of a criticism of Dr. Schacht's new book, he summarizes the situation as it stands to-day :

There must be some common ground of agreement that the German and the French people can and eventually should reach . . . There must be some figure of reparation payments that the Germans themselves should be moved to propose ; a figure not so unreasonably small as to deserve the contempt of the creditor Powers, not so large as to be beyond the assured capacity of the German people to pay . . . It now becomes the prime business of the European governments to undertake to settle the question of reparations, and that without American initiative . . . Certainly, after the sensational events of the last few weeks, especially Great Britain's suspension of the gold standard, no sensible American can have serious question that the Administration at Washington will be prepared to receive with an open mind any fresh proposals of a constructive nature that emanate from the governments of Europe.

Mr. Lamont certainly voices our better opinion and he probably forecasts correctly what Congress in the end will do. But Mr. Hoover will have no easy time of it when Congress reconvenes in December. First of all, the House of Representatives is likely to be Democratic. As the result of five bye-elections held on November 3, the Opposition party can now claim 217 members, the Republicans 216, and the Farmer-Labor party 1. A seat in the fifth New Jersey District is to be filled on December 1 and the one remaining vacancy, a New Hampshire seat, will be decided on January 5. The probabilities are that the Democrats, having a nominal majority, will be asked to organise the House : and that the balance of power will lie with the one representative of the Farmer-Labor party.

Moreover, when M. Laval finally approaches the American Government with a new plan involving the payment of German reparations (or their non-payment !) he will find

The European Problems of the United States

more hostility to his suggestion of a corresponding reduction of Allied debts to the United States than he has been led to expect. The joint *communiqué* which he and Mr. Hoover put out at the conclusion of their conversations, suggested that Washington would entertain the idea of *some* reduction. Perhaps further details were privately and tentatively agreed upon. But at the same time one cannot help deploring the appearance in *L'Information* of an article by Count Fernand de Brinon, who accompanied M. Laval on his Washington visit :

It can be affirmed, in effect (he writes), that Mr. Hoover has agreed to confide to France the task of discovering in the general interest, a new settlement of reparations ; and that in exchange for this settlement he has engaged himself to support before Congress an equivalent reduction in debts owed America.

The Treasury of the United States is confronted with the staggering problem of meeting a deficit of over \$2,000,000,000 for the current fiscal year. Congress will be badgered with demands for relief on an unprecedented scale. Whatever may eventually be decided in Washington with regard to war debts owed to this country, Congress will not cheerfully accede to the necessity of revising or cancelling these obligations, and will doubtless show their resentment at the fact that Mr. Hoover gave to M. Laval the concrete assurance that he is alleged to have given.

So . . . under the new dispensation, France and the United States will co-operate to maintain the gold standard, and France will take the lead among European nations in arranging what is hoped to be a permanent settlement of the problem of reparations. The United States will give friendly consideration to corresponding suggestions concerning war debts.

The European Problems of the United States

IV.

AS for the question of disarmament, it seems that Mr. Hoover and M. Laval have laid it on the table to await a more propitious season. Their *communiqué* stated that the task of the Disarmament Conference in 1932 would be "the organisation on a firm foundation of permanent peace."

We have been slow to realise that nothing can compel Germany to pay reparations against her will; even more slowly have we learned that nothing, in the last analysis, except their free consent, can compel debtor governments to pay their obligations to the United States. But, if it is now too late to trade these debts against disarmament, it is not too late nor too much to look for a voluntary proposal in this respect from France.

But even without this, permanent peace can be considerably advanced at the Conference in 1932, or before it, or at any time that statesmen really care to advance it. No admirals are needed, and no statistics: but a brief agreement among the principal nations that from now on they will collect their taxes in two assessments. The first would require the tax-payer to make his annual contribution to the expense of past, present and future wars; the second would fix his payment for the constructive activities of his government. No statesman who professes to prefer a regime of peace to one of war could honorably refuse to enter such an agreement. And the fellow who pays for it all, learning for the first time that sixty-five per cent. of his tax was to be paid under the first assessment, and only thirty-five per cent. under the second, would shortly, at the polls, have something of moment to say to his governors on the subject of disarmament. In all conscience he is entitled to know the facts and to speak his mind.

The United States of America,

November 6, 1931.

THE WORLD AND THE CRISIS

I. THE FALL OF THE POUND

WE have passed through another three months of the world-crisis and, like the Abbé Sieyès, some of us may say *nous avons vécu* with a certain air of thankfulness. At least the predictions of the darkest prophets who foresaw the imminent collapse of Western civilisation have not yet been realised. The evil of the day has indeed been more than sufficient, but there may perhaps be ground for hoping that the climax of the economic tempest has been reached, if not passed. In any case, it can do no harm to strain the eyes in the blackest hour to discover whether some faint ray of dawn may not be discernible.

When the last number of this review went to press, the inexorable advance of the depression had pushed Germany and central Europe to the edge of the abyss. The London Conference, hastily convened to meet the crisis, had failed to find any radical remedies. Though it took measures for propping German credit by extending the loans which could not be repaid, it did nothing to remove the causes which had brought about the breakdown of international credit and had destroyed the foundations of confidence. As these causes still persisted, their paralysing effects steadily spread through the arteries of the world's financial system, until finally they reached its heart, the City of London. For the first time in modern history it was unable to meet its obligations. Just as banks all over the world could not

The World and the Crisis

realise their assets in order to meet the panicky withdrawals of their clients, so finally the hub of the banking universe failed to stand the unprecedented strain to which it was subjected. The whole of Europe was shaken by the threatened failure of Germany, Austria and Hungary. Heavy calls were made on London by depositors who wished to reinforce their liquid assets to meet sudden liabilities. The run stimulated the fears of many abroad who had seen England's economic situation painted in funereal colours by certain French observers widely regarded on the Continent. These fears found confirmation in an increasingly unfavourable trade balance, and seemed to be finally clinched by the alarmist findings of the May Report, which was recklessly published at the psychological moment, when London was called upon to meet the full blast of the July crisis. No doubt this astonishing step was taken with the laudable intention of arousing the British public to the dangers of its internal situation; but unhappily the contents of the Report, and still more the lurid commentaries of the London press, were blazoned over the five continents at the very moment when foreigners were looking to their British holdings with growing anxiety. Thus the run became a rush. Gold began to drain away from the Bank of England in August as it had drained away from the Reichsbank in July, in spite of the seemingly incredible fact that Great Britain, so far from being impoverished like Germany, remained by far the greatest creditor country of the world. Her investments abroad bore a nominal value of £4,000 millions, and were calculated by the *Economist* as being actually worth £3,140 millions at the end of July. But all these immense resources could not be mobilised to stem the outflow of gold. The short-term loans frozen in central Europe were equally beyond recall. A political crisis supervened, and a National Government was proclaimed. Loans to the extent of £130,000,000 were obtained from France and the United States at high rates of interest. The budget was drastically

The Fall of the Pound

balanced. The firmest intentions of maintaining the gold standard were announced and the perils of its abandonment startlingly depicted. But none of these things stopped the rot. The flight from the pound, perhaps artificially assisted by deliberate efforts abroad to weaken it for speculative or political purposes, could not be arrested. On September 21 the Bank of England was authorised by Act of Parliament to suspend gold payments. England had left the gold standard, of which she had always been the principal advocate and support.

The repercussions of this tremendous event throughout the world cannot yet be assessed. It may at once be noted, however, that they have not produced the anticipated cataclysm. Thanks to the innate good sense of the English people, fortified by a seasoned distrust of the prophecies of their politicians and their newspapers, there was no trace of panic. Business continued as usual. There was no scramble to withdraw money from the banks or to hoard bank notes in stockings. The pound bumped sedately down to 16s., and rested there placidly in spite of the alarums and excursions of a singularly unedifying election. By degrees the catastrophe which had been the subject of so much dark foreboding was seen to foreshadow substantial reliefs. It might provide the lever for lifting a burden of debt which had become intolerable to the taxpayer and a burden of costs which had long been weighing heavily on industry and agriculture. Though some prices would necessarily move upwards, it became quickly apparent that the devaluation of the Irish, Australian, Canadian, Indian and Scandinavian currencies would largely guarantee the urban population against any meteoric rise in the cost of living. The fall of the pound offered a better chance for the manufacturer and the farmer, a prospect of reducing unemployment and an automatic method of redressing the trade-balance. In a hopeful but determined spirit England soon began to adapt herself to the new economic order with a cheerful philosophy peculiarly her own.

The World and the Crisis

When the election gave it an opportunity of expressing its mind, the country did so in an altogether unmistakable manner. It was resolutely decided to play for safety until all danger was over, by entrusting government not to one party, but to the strongest combination that could be found, and by thus giving irrefutable evidence of solidarity to the world. The Government was given a mandate by the largest majority in English history to frame and carry out a national policy of reconstruction irrespective of all party creeds and shibboleths. The new Administration was charged to do the work, which the Coalition Government was empowered, but mostly failed to do, in the years following the war. It may be hoped that it will prove worthy of the nation's expectations, but in any case the imposing spectacle of such a large measure of national unity produced an immediate effect on the whole situation. Confidence in the future of Great Britain, which had been badly shaken in August, and profoundly disturbed in September after the naval strike, was restored at a blow on October 27. The fear that Bolshevism was about to triumph, which was widely and sincerely entertained in foreign circles, evaporated over-night. Not only was England's belief in herself renewed, but she once more became an element of stability in the general crisis instead of an element of doubt and uncertainty.

The climax having been produced by Great Britain's departure from the gold standard, a first and important step towards restoring the world's equilibrium was thus taken by Great Britain's energetic effort to put her own house in order. Its moral effects at home and abroad may do much to counteract the psychological influences making for panic and pessimism, which are perhaps the most ominous and intractable factor tending to aggravate the crisis everywhere. But, though this is an invaluable beginning, the actual financial and economic problems still remain to be solved. The external effects of England's departure from gold cannot yet be gauged with any

The Fall of the Pound

certainty. The devaluation of foreign holdings in sterling will injure a large number of foreign individuals and some foreign governments. On the other hand, a larger number of individuals and of governments, whose bonds are in sterling, will be relieved of their burden to the extent of perhaps 20 per cent. Countries dependent to any considerable extent on exports to England, or on British tourists, will suffer considerably, unless they conform to the new pound, as some have already done, and others may be forced to do in the near future. All these consequences are obvious enough, but the commercial effects are much more difficult to appreciate. As long as wages do not rise, the British manufacturer will probably be able to sell his product abroad at a considerably lower figure, in spite of the added cost of most raw materials. British coal, textiles, steel and machinery will have an opportunity of recovering much of their lost ground in foreign markets. Conversely, the enhanced value of all imported articles will enable British goods to oust foreign produce in many branches of the home market. But exactly how far can this double process go? If it had been initiated in normal times, it may well be supposed that British trade would have recovered something like its natural expansion, and at the same time its natural equilibrium, without great difficulty; but can that be expected to happen in the depths of a particularly deep depression? Will not our foreign customers try to keep as many of their own people employed as possible by excluding British goods by higher tariffs, especially those who can no longer sell their own goods in the British market? In other words, will not they adopt the reasoning upon which the case for tariffs is based by its advocates in this country? Canada has already set an example by levying duty on British goods at the old parity value of sterling. Protective measures are being discussed in Holland and Norway to meet the new British competition. Germany has in any case been compelled by her financial troubles to reduce all imports to the

The World and the Crisis

minimum. Other countries may follow suit. If trade had been plentiful, such defensive measures would have been much less likely; but the smaller its volume, the more strenuous will be the efforts of every country to retain as large a proportion as possible for its flagging industries. One of the most marked features of the crisis is the dwindling of international trade as a whole.

We are therefore brought back inevitably to the conclusion that nothing but a general recovery will restore British commerce to a satisfactory level of activity. Though its situation will in all probability be substantially improved by the devaluation of the pound, its full benefits cannot be reaped as long as the slump continues. A general tariff might stimulate for a time the production of certain goods for the home-market, but would undoubtedly provoke retaliation which would severely injure our export trades. However illogical the threats of the French Minister of Commerce may appear at a time when France is restricting imports by high duties and contracting quotas, there is little doubt that a British tariff would be met by French reprisals, and France would not be the only country to adopt such measures. Solid prosperity cannot be conjured back to British industry by any purely British action. Neither devaluation nor protection can weave the spell separately, still less in combination. Great Britain can only prosper as a great centre of international commerce and finance. Until, therefore, there is a world-wide recovery, amelioration of Great Britain's position can only be partial and inadequate. We must, therefore, turn our view outwards to estimate how far the prospects have altered for better or for worse during these three months, while London has been in the eye of the storm.

The International Outlook

II. THE INTERNATIONAL OUTLOOK

IN the last number of this review* it was pointed out that the basic causes of the depression were to be found in the series of maladjustments, economic, commercial, financial and political, under which the post-war world had laboured. The uneconomic manifestations of "economic nationalism," working through tariffs, subsidies and other protective measures, had choked the flow of international trade at a time when enormously increased productive capacity, both in industry and agriculture, made the free interchange of commodities between nations more than ever essential, if consumption was to keep pace with production. These evils tended to create a maldistribution of capital, which was greatly aggravated by the burden of war debts and reparations on the one hand, and by the failure of France and the United States, since 1929, to use their credit balances for maintaining and developing the economic activity of the countries most in need of money. As a result, political disturbances, largely due to impoverishment and unemployment, broke out in many of these countries, particularly in Germany, South America and India. These revolutionary movements still further reduced confidence and caused the purse strings of possible lenders to be drawn tighter than ever. Thus, by the time the German crisis occurred in July, the vicious circle was complete. The bankers blamed the governments and the governments blamed the bankers; but it was clear that the last word must rest with the statesmen. No financial action could any longer avail to restore the movement of money, raise commodity prices and start the upward trend towards recovery. None of these things was possible until the fears of internal and

* See THE ROUND TABLE, No. 84, September 1931, p. 769.

The World and the Crisis

international upheavals could be allayed, and that meant little less than a complete revision of the war settlement, under which the world had been uneasily ploughing its way forward since 1918, and the establishment of effective international co-operation alike in the political, financial and commercial fields.

The correctness of this analysis was largely confirmed by the report* of the powerful committee set up by the Bank for International Settlements under the chairmanship of Mr. Albert H. Wiggin of the Chase National Bank. They stated their view that without the restoration of Germany to economic health, there could be no escape from the bog of falling prices and shrinking confidence for the rest of the world. But for Germany's recovery, two conditions were essential, the removal of political dangers and the lightening of her burden of indebtedness.

The body of the world's commerce, whose vitality is already low, has suffered a severe shock in one of its chief members. This has resulted in a partial paralysis which can only be cured by restoring the free circulation of money and of goods. We believe that this can be accomplished, but only if the governments of the world will realise the responsibility which rests upon them, and will take prompt measures to re-establish confidence. Their action alone can restore it. We think it essential that, before the period of prolongation of credits recommended by the London Conference comes to an end, they should give to the world the assurance that international political relations are established on a basis of mutual confidence, which is the *sine qua non* of economic recovery, and that the international payments to be made by Germany will not be such as to imperil the maintenance of her financial stability.

Taking the state of Germany as their text, the Bankers' Committee further insisted on two general conditions without which there can be no expectation that the depression will pass. First, the normal process of investment must be resumed "with a well-defined economic purpose in view—namely, an increase in the purchasing power of the world." Secondly, the elimination of the present

* Signed on August 18.

The International Outlook

contradictory state of affairs, which "involves the annual payment of large sums by debtor to creditor countries, while at the same time putting obstacles in the way of the free movement of goods."

The prospects of a general recovery, with which the recovery of Great Britain is indissolubly linked, may be judged by the prospects of this simple but formidable programme, laid down by ten men representing the banking systems of the ten strongest financial countries. Incidentally, it may be remarked in passing, that it is a real advance that there should now be international machinery which permits of common principles of financial policy being worked out and authoritatively stated by leading financiers drawn not only from Europe, but also from the United States and Japan; further, that even the formulation of such a policy is a light in the prevailing darkness. Unfortunately, its execution does not, in the main, rest with those who drew it up. The primary condition for its success is action by governments to remove the political malaise, from which ultimately flow the hesitancy of capital to perform its ordinary functions, and consequentially the general shrinkage of purchasing power. It is as true now as three months ago that the main exit from the *impasse* lies through the political door. The international situation must therefore claim first consideration in any estimate of the hopes of economic revival.

At a first glance, it cannot be said that the outlook has changed substantially for the better between July and October. The British crisis had the effect of seriously weakening for the time being, one of the most powerful influences for stability and reconciliation in Europe. Whatever its faults in other respects, the Labour Government had exerted a steady and successful pressure in the direction of peace and disarmament. Its efficacy may readily be judged by the exultation which greeted Mr. Henderson's downfall in those French circles which have been most actively hostile to a conciliatory attitude towards

The World and the Crisis

Germany and to the Disarmament Conference. No doubt Mr. MacDonald had no intention of altering the general policy, which he had pursued as Prime Minister for two years, but for a time, British influence abroad was paralysed by the internal crisis. The new Foreign Secretary was so deeply occupied with the financial and political problems of the moment, that he had little time to devote to the broad questions of international policy, and was unable to attend the Assembly of the League. During those weeks, things did not stand still, and the disappointing results of the discussions at Geneva were ascribed by many to the absence of a clear and authoritative lead from Great Britain. These temporary incapacities have now been removed, and this country is once more in a position to play a leading rôle in world affairs. All parties are united as to the broad outlines of our foreign policy. Though they may not be all equally fervent in their advocacy of disarmament, or equally aware of England's vital interest in securing continental stability, the false antithesis between imperial development and the cultivation of our European markets is not likely to obscure the tremendous issues which have now sprung to life, and which are bound to affect our national future profoundly. If there is no *rapprochement* between France and Germany there will be steadily growing estrangement. If there is no first step towards general disarmament next year, the signal will have been given for general armament. The result of either or both of these eventualities must be to aggravate the existing nervous apprehension, to postpone complete economic recovery indefinitely, and in all probability to prepare a new conflagration against which no cloak of isolation will afford any certain protection to these islands. At such a momentous time, British statesmanship may be called upon to play a decisive part. The exaggerated conclusions drawn abroad as to the solidity of England's financial power are now being quickly dissipated. The abandonment of the gold standard naturally produced a

The International Outlook

world-wide shock, but comprehension is now dawning abroad that, so far from the sensational anticipations of England's decline and ultimate fall being realised, the revaluation of the pound may prove to be the first tonic needed to restore British commercial and financial vitality, which has been so conspicuously subnormal ever since the war. The time is therefore propitious for re-establishing complete confidence in England's future action by demonstrating once more her capacity for leadership in international affairs.

While the prospect was momentarily darkened by the temporary relaxation of British effort, it was brightened by the gradual emergence of the United States from isolation. The serious position of their industrial and financial system brought forcibly home to the American public that they too could not look for recovery by their own endeavours alone. Prices and production continued to fall; unemployment continued to rise. The budget deficit for the year ended June 30, 1931, amounted to the formidable sum of \$516,000,000, after deducting sinking fund payments, while the outstanding public debt had increased by \$616,000,000.* Nearly 3,000 banks closed their doors, with the result that public confidence was undermined and withdrawals took place on an alarming scale. It was said that the only flourishing industry in the United States was the manufacture of safes and cash-boxes. These events convinced not only the financiers, who probably needed no convincing, but also the White House, that the American Government must throw its weight into the scales in order to promote political and financial stability in Europe, without which there could be no solution of its own troubles before the Presidential Election next autumn. We have accordingly witnessed three very notable events; first, the participation of an American delegate in the discussion of the proposed truce in armaments in the Third Committee of the Assembly of the League; secondly, the presence of

* *The Economist*, August 1, 1931, p. 28.

The World and the Crisis

an American representative at the sittings of the Council called to deal with the Sino-Japanese quarrel; and, thirdly, the visit of M. Laval to Washington at the invitation of Mr. Hoover, to be followed by a similar visit from Signor Grandi. There is no mistaking the general purport of these things. While it would be a gross error to suppose that the United States was on the point of joining the League or of taking sides in European politics, nevertheless her attitude of detachment and self-imposed solitude has come to an end. Everyone who has the cause of peace and disarmament at heart must heartily welcome this change, for without American aid no political or financial resettlement is possible.

But what of France and Germany, who still constitute the hard core of the problem? As Lord Cecil has said, the establishment of harmonious relations between them would at once remove 75 per cent. of our troubles. The basic condition of recovery postulated by the Bâle bankers would be fulfilled, and the world would begin to breathe more freely. Unfortunately, there are few reassuring signs to be discerned. Germany's position remains as precarious as ever.* Another extension of her short-term credits has inevitably been granted, but at the time of writing no real step has been taken to put German finances on a sound footing. The French visit to Washington has disappointed the expectation that it might produce some joint plan for scaling down debts and reparations. Failing this, Germany will continue to hang like a sword of Damocles over Europe. She is attempting to meet her foreign obligations by the only method open to her, namely, drastic restriction of imports and stimulation of exports at low prices. This means widespread unemployment and depressed standards of living within the country, the shrinkage of the German market for the goods of other countries, and the intense competition of German goods with those of other countries abroad. It is characteristic that during the first six months

* For an account of the situation in Germany, see page 71.

The International Outlook

of this year our exports to Germany declined by 50 per cent. as compared with the same period in 1929, while British imports from Germany diminished by about 10 per cent. only. The British experience is that of a number of other countries. Germany is buying a favourable trade balance as the only means of paying her debts at the price of severe privation, which has rendered a critical internal situation still more critical. Parliamentary institutions have been practically suspended since Dr. Brüning obtained a blanket authority to govern by decree by a bare majority of 25. The Hitlerites and the Communists are still gaining ground at the expense of the parties of moderation. Everyone is asking the question whether the Government can see the winter through without an upheaval.

The answer probably lies with France, but as yet there has been little indication of any change in temper there. The Berlin visit of M. Laval and M. Briand produced a slight relaxation of tension, but no tangible result, except the creation of a joint industrial commission, which cannot approach any of the fundamental problems. The momentary improvement of French feeling was quickly obliterated by the Nationalist demonstration at Harzburg, which revived French fears and distrust in all their intensity. It is true that the death of the Customs Union with Austria has removed one bone of contention; but as its demise was due to French financial pressure, its burial has been an added cause of bitterness in Germany without creating any sense of greater confidence in France. The burning questions of reparations and disarmament have not been touched, to say nothing of the wider problems of Treaty revision. On all these matters the attitude of the French Government and of the bulk of French opinion is still apparently adamant. M. Laval's declarations at Washington, the speeches of M. Maginot, the attitude of the French delegation to the Italian proposal for a truce in armaments at Geneva, all seem to suggest that France is

The World and the Crisis

disposed to rely on her military and financial power to maintain the *status quo* at any cost, even if it involves a revolution in Germany. The only circumstance which might apparently modify this intransigent position would be the consent of the United States to enter into a consultative pact, or at least to agree to withhold all support from a nation declared by the League to be the aggressor. Without some such reassurance it is difficult to see how French apprehensions are to be sufficiently allayed to allow of any effective measure of disarmament, through which the main road to restored confidence now lies, for without it there can be no real understanding between France and Germany. It might be thought that, after co-operating with the League in dealing with the Far Eastern dispute, Mr. Hoover would consider that such a request did not greatly exceed the limits which American policy had already reached; but Senator Borah's denunciation of military or economic sanctions is not of good omen. The League's intervention between China and Japan has now assumed capital importance for the future not only of the East, but also of the West. Every possible moral pressure has been exercised by the great nations of the world, jointly and severally, upon Japan. If the Japanese succeed in demonstrating that a country resolutely determined on aggression can defy international public opinion with impunity, the consequences will be far-reaching. The thesis that forcible measures for the prevention of war are unjustifiable because they are unnecessary, widely held in America and in some circles in England, is now being put to a crucial test. If the League fails to induce the retirement of the Japanese troops, the French argument that there can be no disarmament without an effective international force will be greatly strengthened, and the whole system of mutual guarantees dangerously weakened. The fate of the Disarmament Conference now largely hinges on the success or failure of the Council, reinforced by the United States, to prevent an outbreak of hostilities in Manchuria.

The Conditions of Recovery

III. THE CONDITIONS OF RECOVERY

FROM the foregoing survey it may seem that the political outlook is darker than ever; and yet there are some silver linings which may be detected in the clouds. The very gravity of the economic crisis, to which political uncertainties have so largely contributed, is in its turn producing some favourable reactions on politics. There is hardly a country in the world which is not confronted with an actual or prospective budget deficit. By the inevitable operation of economic laws France is now threatened, as England was six months ago, with a wide gap between revenue and expenditure coupled with an increasingly unfavourable trade balance. Reference has already been made to the United States. As commercial activity declines, national revenues are shrinking everywhere. Fresh sacrifices are demanded of the taxpayer, which his own dwindling income makes him progressively unable to meet without further contracting the volume of purchasing power, and thus further slowing down the turnover of business. Even the drastic reduction of salaries, wages and social services, with all the risks which it entails, offers no escape from this vicious circle. It can retard the deficitary process, but cannot arrest it. In these menacing circumstances governments are being forced, however reluctantly, to turn their attention to the real remedies. It is significant that Signor Mussolini, with characteristic directness, has openly demanded not only disarmament and the reduction of war debts and reparations, but even the revision of the Treaties. It is equally noticeable that Mr. Hoover has already curtailed naval expenditure and has now found a powerful counterpoise to the advocates of a bigger navy in the adversaries of higher taxation, a far more numerous body whose electoral power is considerable. It may be wondered whether M. Laval,

The World and the Crisis

who will not sacrifice a single battalion to obtain relief from war debts, may not consider the sacrifice as a preferable alternative to increasing the burden of the taxpayer further.

Finally, there is the international monetary problem to be faced. As long as the pound remains divorced from the gold standard, a major influence will be at work in opposition to the re-establishment of settled conditions. The French and American Governments have agreed to maintain the gold standard at all costs; but can it be permanently maintained unless the pound is stabilised, and can the pound be stabilised unless there is a much greater measure of security for trade and investment abroad than exists at this moment? There is no reason to suppose that the possible consequences of the devaluation of sterling have been by any means exhausted. Both as banker and trader, Great Britain plays so preponderant a part in the world's economic affairs that the instability of her currency is a menace to everyone. She was forced to abandon the gold standard mainly on account of its failure to operate normally under post-war conditions, for reasons which were expounded with prophetic clearness in the Macmillan Report. Until there is some effective international arrangement to ensure that it will function less capriciously in future, it is hard to see how the pound can be safely restabilised in relation to the franc and the dollar. It is on this point that all parties in England are united in demanding an international conference to work out a fresh monetary basis for the world's commercial transactions. There is still unremitting hostility to this idea in French and, to a lesser extent, in American circles, where the adoration of gold is still the orthodox religion. Only as the god's fallibility is exposed by events, will it be seen to be necessary to create an international organisation, not for the blind worship of gold but for its rational utilisation. That point has not yet been reached. No country is immune from the fatal effects of the complete dislocation

The Conditions of Recovery

of the world's economic machinery, but its operation only becomes slowly perceptible. Until the measures needed to counter it are generally understood, a return to the gold standard would be hazardous. In the meanwhile it may be worth considering whether some arrangement cannot be worked out for fixing the exchange-rates between the currencies of the Empire as a first step towards general stability. Such a move might have important consequences.

The fall of the pound from its pinnacle marked the culminating point in the logical evolution of the crisis. It must either precipitate a general catastrophe or compel the beginnings of a concerted and intelligent effort to build a new and more orderly world, based on the recognition of the mutual rights and essential interdependence of nations. The process will be long and difficult. It will require concessions and adjustments in the political field, demanding a wisdom and moderation for which the present generation has not been conspicuous. It will require the re-enforcement of the League machinery to render peace more secure than it is yet. It will also require the application of the bankers' programme. As long as the competition in tariffs continues, there is no hope either of profitable business or of financial equilibrium. The free movement of goods is now hamstrung by national obstacles raised in the vain hope of achieving what no country can ever achieve—a creditor position coupled with excess of visible exports over imports; or the retention of the home market in an increasing degree for the domestic farmer and manufacturer coupled with the maintenance of a flourishing export trade. These simple yet difficult truths have still to be thoroughly digested, both in Europe and America, before any permanent bulwarks can be erected against future flood-tides of depression. As the bankers put it, "financial remedies alone will be powerless to restore the world's economic prosperity, unless there is a radical change in this policy of obstruction, and international commerce—on which depends the progress of

The World and the Crisis

civilisation—is allowed to resume its natural development.' The choice is clear enough. The world-wide economic machine which the twentieth century has brought into being cannot be worked on principles of unlimited national egoism without regard to the general interests of the world's economic and political equilibrium. The present crisis has been brought about, because those interests have been ignored in certain countries, and will not be completely lifted until there is general agreement that they must be given paramount consideration.

The need for a thorough review of the international elements in the crisis is particularly urgent at a moment when signs of business revival are again becoming faintly apparent. The run on the banks in the United States seems to have been brought to a halt by Mr. Hoover's guarantee fund. The readjustment of British costs by the return of the pound to an economic level is reducing the burden of unemployment, reopening channels for investment and correcting the balance of British trade. The rise in the price of wheat, if maintained, promises to restore the purchasing power of the farmer, particularly in Canada and the United States. The upward movement of silver may reopen the markets of the East. If these favourable symptoms are encouraged by an attempt to remove the causes of international friction and maladjustment, they may develop into evidence of approaching convalescence. If, on the other hand, nothing is done to cure the international evils, recovery may be again nipped in the bud as it was in the early summer. Mr. Hoover and M. Laval have already publicly recognised that the real task of the Disarmament Conference is the restoration of peace and stability and have agreed to co-operate to that end. But the political cannot be separated from the monetary problem. Both must be tackled, either simultaneously or conjointly. To wait until February before anything is done, or even begun, involves the risk of fresh upheavals in central Europe, which may destroy the hopes of recovery

The Conditions of Recovery

now making themselves felt. It is surely not beyond the means of the Government of this country, armed with such an overwhelming mandate, to take the initiative in seeking a new foundation for the world's credit and banking system, which in spite of all the vicissitudes of the last month is still centred in the City of London.

RUSSIAN REALITIES : THE PROTESTANT RELIGION

I. THE RISE OF PROTESTANTISM

NOTHING so clearly shows the rapidity with which the old world is disappearing in Soviet Russia as the state of religion. On my first visit in 1923 I found atheism already rampant, especially among the young. It was, however, still possible to make out a case for religion, and even for maintaining its vitality. In town and village alike the church was still a conspicuous object, and the Greek Orthodox priest, with his flowing locks and his dangling gaberdine, was a no less conspicuous figure in local society. Attendance at services had, it is true, fallen off woefully, but there were still congregations, and few churches—less than two per cent. of the whole number—had closed. Country girls were seldom willing to be married except by the priest, and although masses of peasants had given up going to church, they went on having their babies christened, and they always sent for the priest when there was a funeral. New religious sects had even sprung up—Protestantism especially seemed to be in for a new lease of life. In spite of the Revolution then religion was, on the surface, still flourishing.

How utterly different is the scene to-day ! In the towns the church is no longer a landmark. No new ones have been built, and many of the old ones have either been put to new uses or pulled down to make room for other build-

The Rise of Protestantism

ings. There are, no doubt, enough Orthodox places of worship still functioning to accommodate the ever-dwindling number of the faithful, but the congregations are too poor to keep them in repair, and unless something unforeseen happens, they will soon have to be taken over by the State, if only to save them from collapse. The priest is rapidly disappearing, and the few who are still about are a sorry sight—old, shabby and decrepit. They are dying out and there is no one to take their place. In the course of my wanderings this year I did not come across a single young priest. The village girls no longer insist on being married in church, and christenings and religious funerals are going out of fashion. Look in any direction you like, you will find nothing but decay in the Greek Orthodox Church. All the old religions, indeed, are succumbing to the onslaught of the Revolution. Mahomedans, Roman Catholics and Jews of the older generation cling more tenaciously to the faith of their fathers, but their future is also dark, for they too are losing their young people.

To this universal *débâcle* I came across only one exception—the so-called sects. I am speaking not of the mystical but of the rationalistic sects. They consist of common folk, chiefly peasants or labourers who, dissatisfied with the shortcomings of the old church, had, sometimes with the aid of some outside preacher, sometimes entirely on their personal initiative, set up religions of their own. Two outstanding examples are the Baptists and the Evangelical Christians, who between them have several million followers. These are the Russian Protestants, and they have contributed a stirring chapter to the religious history of their country—even, one might add, to the history of the Revolution itself.

The career of Protestantism in the time of the Czars was a chequered one. It had its birth in martyrdom. It had no sooner made its appearance and shown itself capable of attracting converts than the Greek Church began to look upon it as an enemy and a rival, and to try

Russian Realities : The Protestant Religion

its best, with the help of the old government, to suppress it. But Protestantism would not be suppressed. It thrived in spite of persecution. The Protestant flocks were primitive folk, just as Russia herself was a primitive land. Their faith, indeed, retained a good deal of the character of early Christianity. Its survival was in no sense due to organisation, or to the union of the different groups, but simply to the devotion of the individual. It saw in religion not merely ceremonial, but a way of life, a body of principles to guide man in his relations with his fellow-men and with the outside world. The Protestants read the Bible omnivorously, read, pondered and absorbed it. They taught each other to read so that they should all be able to study Holy Writ. Those who could not read had it read and expounded to them. Unlike the Greek Church, Russian Protestantism paid more attention to the meaning of religion than to its forms. Puritan to the core, it banned the use of tobacco, spirits, violence, abusive language, dancing, the theatre and other indulgences of the flesh. Yet its votaries were no ascetics. They did not shrink from what they regarded as legitimate earthly pleasures, and from their foreign brethren, chiefly Germans, they learnt modern methods of agriculture and the virtues of thrift, cleanliness and sobriety. They became, indeed, the most progressive farmers in Russia. "Sectarrians (the reference was to the Protestants)," writes a well-known Bolshevik atheist in a pamphlet attacking all religions alike, "value highly literature on natural science and especially on modern agriculture." Coming from an enemy, these words are significant. In the course of my own travels I found the land of the Baptists and Evangelical Christians better worked than that of their Orthodox neighbours. They also lived a cleaner, more wholesome life and were better educated.

Then came the Revolution, and with it freedom for the sects. Because their members were mainly peasants and proletarians, who had been persecuted in the old days,

The Rise of Protestantism

they were regarded by the Communists as wards of the Revolution and accorded rights and privileges, such as they had never enjoyed before. The Bolsheviks were at that time trying to break the power of the Orthodox Church, and, following their usual tactics of dividing the enemy's forces, they were only too eager to enlist the help of the Protestants in discrediting Orthodoxy with the masses. In 1924 I found, in city after city and village after village, the Protestants out in the open. Everywhere in the bazaars Evangelical and Baptist preachers were holding forth on the meaning of their faith, unmolested either by Soviets or Communists. In their local and national conferences both Baptists and Evangelicals passed resolutions thanking the Soviets for the consideration shown for their rights. In Moscow Seventh Day Adventists were allowed to hold a convention in the Third House of the Soviets itself. In Tzaritzin, now Stalingrad, the great industrial city on the Volga, and one of the revolutionary centres of southern Russia, a Baptist minister told me that the local Soviet was allowing him the free use of the city theatre on Sunday afternoons. He invited me home to meet his family and some of his flock, and as we sat round eating cakes and jam and drinking countless glasses of tea, his friends and he spoke with glowing satisfaction of the new hope that had come to their people in Russia. At last there was nothing to interfere with the free exercise of their religion; Orthodox priests no longer spied on them, gendarmes no longer hounded them, and cossacks no longer dragged them to gaol, as in the days of the Czar. Baptists and Evangelicals were both quick to use their new-found liberty to emphasise the social side of their faith, which, on the surface at all events, was in harmony with some of the social objects of the Revolution. They formed clubs, co-operatives and mutual-aid societies; they encouraged music and sociability, and they immediately began to attract people. What they offered seemed to be something quite new in religion—philosophy, good

Russian Realities : The Protestant Religion

fellowship, kindness, practical help, a new social purpose, which, as already suggested, was in some ways akin to that of the Revolution—so at least it seemed at the time. Even the young, with all their distractions, found it worth their while to listen to the new word, and the Protestants did their best to win their ear. The law did not allow them to hold religious classes for pupils under eighteen, but it did not interfere with the organisation of clubs, picnics, festivals, musical gatherings, lectures and athletics. The young people indeed formed their own organisations—the Baptomol, for Baptist youth, and the Christomol, for Christian youth; names with an obvious family likeness to that of the Communist youth organisation, the Komosol, an instance of the open way in which the Protestants copied the social technique of the Revolution. In their dealings with the young they always laid stress upon the importance of cultivating good habits—self-control, politeness, industry, chivalry to women, respect for elders, and friendliness towards strangers. So much so, indeed, that the Soviet press would now and then chide the Young Communists for lagging behind the Protestants in this respect.

And so it came about—a sufficiently remarkable phenomenon—that, while all the other religions in Russia were losing ground with the new generation, the Protestants were not only holding their own, but attracting converts. No wonder that Bukharin, at a conference five years ago, warned Young Communists that, unless they got busy, the Protestants would have more influence on Russian youth than they had.

II. A CHANGE OF ATTITUDE

WHEN the Bolsheviks realised how influential Protestantism was growing, they became alarmed. From one end of the country to the other one began to hear talk about the new enemy within the gates—an enemy which

A Change of Attitude

seemed, like the Phoenix, to have sprung out of the ashes of the old religions. A new campaign was at once set on foot. What the policy of the Bolsheviks would have been if the New Economic Policy had been continued, it is hard to say. But with the leftward swing of the Revolution, their hostility to Protestantism was bound to grow, for, from their standpoint, it had now become the chief counter-revolutionary force in the country. Nothing indeed so eloquently gives the lie to the plea, which sentimental liberals often put forward, that Russian atheism is merely a reaction from the degraded condition of the old Church, as the new attitude towards the Protestants. It has changed from one of benevolent tolerance to unmitigated enmity. In cartoons and pamphlets the Protestant now figures alongside of the other active enemies of the Revolution—the “damager,” the priest, the kulak, the bootlegger, and the rest.

What, then, has caused this change? To find the answer we must examine the fundamental and irreconcilable principles to which the clash between Bolshevik and Protestant in their approach to the problems of life is traceable. Certain features in the community life of the Russian Protestants would at first glance suggest that, both in their theology and in their social views, they are modern and progressive. Yet, nowhere in the world could one find a more primitively fundamentalist type of Protestantism. The Bible is its sole source of inspiration, its guide in thought and action, and anything which seems to it subversive of Bible teaching it rejects as untrue and unworthy. This by itself was sufficient to bring upon it the wrath of the Bolshevik. Russian Protestantism has no more use for evolution than American fundamentalism has. To the Bolshevik, on the other hand, science is the law of life, and evolution its chief glory. Nor could the Bolshevik remain indifferent to the uncompromising puritanism of Russian Protestantism. It forbids divorce, abortion and birth control; it looks upon the theatre as

Russian Realities : The Protestant Religion

something degrading, and, in certain spheres, it encourages the segregation of the sexes. Fundamentalism versus science was the first issue over which Bolshevism and Protestantism crossed swords.

Dogmatism versus flexibility was the second. The Bolshevik charge against religion, especially a religion of so fundamentalist a kind as Russian Protestantism, is that it is rooted in dogma. The fixity of purpose which such dogmatism implies they consider to be incompatible with both the principles and the practice of the Revolution. It is useless to tell them that Marxism and Leninism have, in their hands, become just as rigid as anything to be found in fundamentalism. Their reply is that this is not so. Change, on the contrary, is, they say, the very essence of Marxism, which at best is itself merely a way of approach, an instrument of guidance. They love to quote Karl Marx's answer, when someone once asked him what was his chief diversion : "To subject everything to doubt." Lenin himself spoke of Marxism as a "guide to action." For the Bolshevik it is dynamic, something that never stands still, and Communism, though a future, is by no means the final, stage in human development. They consider that this attitude is at the opposite pole to the dogmatism of Protestantism as they see it.

Reverence for authority supplies a third bone of contention. It is true that the authority to which the Protestant looks is not an earthly authority. But for the Bolshevik it is enough that it affects life and conduct. For him the very act of worship implies a recognition of this authority, and is a confession of man's weakness in its presence. Besides, the authority itself is derived from a self-contained, arbitrary and exclusive power which is represented upon earth by a group of its own—clergy and prophets. In the eyes of the Bolshevik this group itself constitutes an aristocracy, and expresses a will which is not that of the masses. The masses, indeed, have themselves to honour and obey this aristocracy. The system is thus a duplication

A Change of Attitude

of the very one which obtains under a capitalist régime ; it represents rule from above instead of rule from below, mastery on the one side, and subordination on the other. At the all-Russian atheist congress in Moscow in June last year Bukharin dwelt at length on this phase of the quarrel between Bolshevism and Protestantism.

It may be said that the Bolshevik dictatorship is the most hide-bound authority on earth ; but to this the Bolshevik replies that it is only a temporary phase, incidental to the transition from an individualist to a collectivist state of society, and destined, like the State itself, the instrument through which the dictatorship exercises its will, to disappear in due course. Eventually there will, they say, be no ruling class, indeed no classes at all. Humanity will then consist only of producers, and the real power will be vested in the masses, with nothing above them—neither God, angels, nor church—to keep them in a state of subjection. All authority, initiative and creative energy will derive from them. And so it comes about that the fight against Protestant reverence for authority is, in Bolshevik eyes, a fight against the very evil which lies at the root of the civilisation that they are determined to destroy. The Christian doctrine of toleration, too, a dead letter in the Greek Orthodox Church, but dear to the heart of Russian Protestantism, is particularly objectionable to the Bolshevik ; for, under it, man always comes first. Wherever he is concerned, social origin, economic pursuits, and political allegiance take a second place. Whatever the circumstances, he remains an object deserving of pity and forgiveness and the respect of his fellow-men. This doctrine is the negation of the theory which underlies the class war, and to the Bolshevik, immersed in his five years plan and his struggle to reconstruct society on a non-class basis, it is naturally anathema. For it demands respect for the kulak, the nepman, the counter-revolutionary, the “damager,” and others whose extermination the Bolshevik deems essential. The sworn enemy of individualism, and bent on its destruction,

Russian Realities : The Protestant Religion

he has nothing but contempt for a religion which extends a welcome to the wealthy and the needy alike. The time for toleration will come, he says, when his new system of society is established, but to-day, while he is still engaged in a desperate fight to ensure its realisation, Christian toleration seems to him to be just social and political suicide.

The clannish tendencies of Russian Protestantism also provoke the hostility of the Bolshevik. Evangelical Christians and Baptists speak of the members of their own folds as believers, and of others as unbelievers. Though bent on making converts, they nevertheless keep very much to themselves in their social and charitable work—indeed in all their activities. They address one another as brother and sister. Even more than their co-religionists in foreign countries, they look upon themselves as a brotherhood complete in itself. But to the Bolshevik, with his exaggerated suspicion of anything different to himself, this means separatism, detachment from the masses, an attempt in fact to break up the unity of his new society. Nor does it give him pleasure to see his own trade unions break up into smaller units, and turn aside to pursue what he regards as extraneous aims. He remembers how certain groups of miners in the Don basin, and of textile workers in Ivanovo, and of builders in Moscow became converts to the Protestant faith.

He is afraid, too, of the Protestant church becoming a city of refuge for the counter-revolution, and it is this which keeps the edge of Communist hostility so keen. The church, after all, was the only organisation allowed to hold meetings of a non-revolutionary nature. It is true that there is nothing in its form of worship which in itself constitutes a threat to the Revolution; but—so the Bolshevik reasons—political plots might be hatched under the cloak of religion, and if Protestantism were to go on spreading, it might in time attract counter-revolutionary elements, who would thus find a place where they could meet and co-ordinate their efforts ready to hand. Foreign help, too,

A Change of Attitude

might be forthcoming in the guise of religious contributions, and the church organisation would make it easy to get into touch with foreign conspirators. To the outsider, these fears may seem exaggerated; but to the out and out revolutionary they are as natural as his faith in Marx and Lenin.

The pacifist tendencies of Russian Protestantism add further fuel to Bolshevik rancour. It is true that neither the Baptists nor the Evangelical Christians have formally adopted pacifism. It is for them an open question which each individual must decide according to the dictates of his own conscience. But the trend of their teaching is all in that direction. The Bolshevik, it must be remembered, is obsessed by fear of foreign invasion. His mood, his outlook and his behaviour all take their colour more from this fear than from any other single factor. This is not the place for a discussion of the cause of this fear or how far it is justified, but its existence is a dominant element in the present day situation. It accounts for the militant spirit, the preparedness campaign, the incessant parades of men and women with rifles on their backs and the warnings to the people to get ready at all costs to meet the attack from outside. In the summer of 1931 there was a marked abatement of this fear, but some untoward circumstance may at any time fan it once more into flame. It is inevitable in these circumstances that a movement like pacifism, which might seriously interfere with his preparedness for war should be regarded by the Bolshevik as a direct menace to his safety.

Lastly, there is the economic situation, and here again one finds the Bolshevik and the Protestant at loggerheads. Bolshevism spells death to private property—the Bolshevik is determined to wipe it out. The Protestant's view is different. He may not believe in piling up riches, but neither Baptist nor Evangelical Christian condemns the institution of private property in itself. Their cartels and co-operative establishments were among the most successful

Russian Realities : The Protestant Religion in Russia. In Moscow the Evangelicals used to run a number of vegetarian restaurants which were among the best eating places in the city ; but being outside State control, they might, from the Communist standpoint, just as well have been private concerns owned by a private individual. Protestant peasants too, as has already been pointed out, were among the thriftiest in Russia, a result due to their personal habits and to their higher cultural standing. But it is only a truism to say that the more prosperous the farmer the more hostile his attitude is likely to be to the collectivisation of the land. Besides, the Protestant knows well enough that on the collective farm he will find a tense revolutionary atmosphere. The principles of the Revolution with regard to family, religion and the relationship of man to man and of man to woman—principles which he could never accept—would be assiduously propagated. He would not be stopped practising his religion in his own manner, but in the course of his every day life he would always be coming up against the Revolution and its requirements. His children would have to attend the nurseries, the kindergartens and the schools, and would soon slip away from their parents' influence. If the Protestants had been allowed to form their own collective farms they might have acquiesced in the new movement, but that was out of the question. A clash, and a bitter one, was therefore unavoidable over this particular issue. -

III. THE COUP DE GRÂCE

WITH such divergent views on questions of principle and practice, both in the social and the economic sphere, it was only natural that Protestantism, as soon as its exceptional capacity for rapid growth had become evident, should attract the active hostility of the Bolsheviks. Here was a new influence in their midst, spreading through farm and factory alike—the very citadels of their

Chapter 8 The Coup de Grâce

power—an influence quite unlike that of the old Orthodox Church; no mere cloak this of antique formalism sure to split from top to bottom before the first gust of modern ideas, but a new spirit, a body of ideas which had sunk deep into the hearts of those affected. No wonder that Lenin's widow pronounced the Russian Protestant a greater menace to the Revolution than Orthodoxy, and Bolsheviks all over the country echoed her sentiments.

In their attack, propaganda has as usual played its part. But a still more deadly blow was the law of April 1929, a law which applies to all religious bodies alike, but which hits the Protestants harder than any of the others. For although the law re-asserts the principle that religious confession is free and the individual has the right to worship in whatever way he chooses, it does not, as the old law did, permit religious and anti-religious propaganda alike; it only allows anti-religious propaganda. This, of course, has put an end to missionary work and to preaching in bazaars and other places than officially recognised places of worship. There is a further provision which bars clergymen from ministering to more than one congregation at a time, which therefore stops Baptist and Evangelical pastors from visiting other congregations than their own. But from the point of view of the Protestant the unkindest cut of all was the revival and amplification of an old law which prohibited a religious body from exercising so-called "administrative functions." In the early years of the Revolution, for reasons already explained, the Soviets refrained from applying this law to the Protestants. Had they done so, Protestant social work would have been impossible, for an organisation which has no right to exercise administrative functions obviously cannot take part in social work. But the new law does more than put a ban on such functions. It specifically prohibits religious bodies from pursuing any activities whatever except worship. It permits freedom of worship and nothing else. This puts an end to co-operatives, club houses, and mutual aid societies—the very

Russian Realities : The Protestant Religion
things that have helped the Protestants to gain their hold upon the masses. At the same time the spread of nurseries and kindergartens and the introduction of universal education is, as I have pointed out, subjecting Protestant children to a thorough process of sovietisation. Some of them will no doubt be saved by their parents for their faith, but only *some*.

GERMANY IN THE STORM,

(FROM A GERMAN PEN)

THE crisis is a world-wide one, but the student who wishes to understand every aspect of it, the economic, the political, and even the less studied psychological side, cannot do better than turn to Germany. Here he will find everything—bankruptcies on a scale which puts those of other countries in the shade; efforts of unrivalled brilliance to modernise and rationalise industry, and to adapt it to the changed conditions of the world; gigantic conflicts in the region of ideas—the duel, for instance, between Dr. Brüning and Herr Hitler. If he wants a striking instance of a *reductio ad absurdum*, the consequences of certain Articles in the Peace Treaties which were formulated in those days of happy illusion at Versailles will strike him in the eyes; and, lastly, where else could one find the ridiculous results of a badly managed distribution of international gold and capital more perfectly illustrated?

The consequences of the Great War have visited every country in varying degree, but they all seem to have converged on Germany. She has, it is true, great advantages; a thoroughly efficient industrial equipment, and a highly trained population of workers, the majority of whom, though insistent upon drastic reforms, are firmly resolved to re-establish their country on its traditional capitalist basis—they have no use for Bolshevik experiments. Germany's interests are indeed indistinguishable from those of Great Britain and other countries with a similar system; but, left to herself and denied international support and

Germany in the Storm

encouragement, her condition is bound to become desperate, and through her open wounds the blood of the whole Western world will continue to ebb.

I. RECONSTRUCTION AND DISILLUSIONMENT

THE economic and financial effects of the war were catastrophic—like those of an earthquake—and the period of inflation which followed brought in its train a total “revaluation of all values.” Yet Germany, when she emerged from these catastrophes, made a tremendous effort to re-establish herself on a sound basis—any other course would have been unthinkable for such an orderly, disciplined nation. In those early days, moreover, the average German was sure that everything would come right if only he could get his economic and financial machinery working at full speed. Were not prosperity, work and profits the best stepping-stone to a healthy national life? People’s eyes were at that time fixed on America—happy, prosperous America—the country without unemployed and “without a social problem.” It might take time, the German argued, but in any case the best way of catching up the nations which had won the war was to become strong again in an economic sense.

So Germany set to work. She reorganised her industries from top to bottom. She invested hundreds of millions in them, most of it borrowed from abroad. Rationalisation and efficiency: these were her aim. There were combinations of companies; colossal industrial and financial organisations were established; new plant of the most up-to-date kind was installed, and expensive—even luxurious—offices and government and municipal buildings were erected. The cities followed the lead of industry, and the trade unions and other bodies did the same. There was on almost every side vitality and hope.

And it was needed. A great deal had to be done to make up for lost ground, not only to replace old-fashioned

Reconstruction and Disillusionment

concerns no longer capable of holding their own against competition, but to fill the gap left by the loss of the industries which went with the territories of which the Treaty of Versailles deprived Germany. As in England, reconstruction was facilitated by new inventions and developments. This was especially the case in the chemical and electrical industries, but others, such as artificial silk, lignite, nitrogen, potash and motor-cars also benefited. This work of replacement and expansion was carried out energetically and efficiently, and our industries had a good deal of luck, especially in the matter of competitive wages.

Things, indeed, went well, and in a few years' time, except in the old middle class, whose standard of life was still sinking, there was not only a considerable amount of individual prosperity, but also unmistakable signs of progress on the part of the community as a whole. No less than ten milliards of reichsmarks were deposited by millions of small people in the savings banks, and only a few years after the ruinous inflation period the policies issued by life insurance companies were more numerous and for larger amounts than before the war. At the same time the Hapag* and the Norddeutscher Lloyd had constructed a new mercantile marine well able to take care of itself against foreign competition. These are a few examples of an effort in reconstruction which won the admiration of the world. And it deserved it, for its results were achieved under the most trying circumstances. The Communists were every day growing more numerous, and, until 1930, a large and extremely important part of Germany was still occupied by foreign troops, the effect of which upon the national temper it is hard to overestimate.

Unfortunately, all the hopes pinned to economic reconstruction proved illusory. There were various reasons. For one thing, this false spring of ours was produced by foreign money—short-term loans at an exceedingly heavy rate of interest. For another, our new and more

* Hamburg American Line.

Germany in the Storm

favourable balance sheet was doomed to be upset the very moment that it became necessary to pay reparations, which, like so many other debts, had hitherto been paid with money borrowed from abroad, out of the earnings of German industry. Germany was entirely in the hands of her foreign creditors, and of those creditors' creditors. What happened is now a matter of history.

For the moment, however, our political, financial and economic leaders seemed to ignore the facts ; at all events, disillusionment came through a sudden revulsion of feeling on the part of the rank and file. Millions of workpeople, especially clerks and other employees of their type, took a sceptical view. It was the same with middle-class folk of all kinds. They did not believe that prosperity was close at hand—why should they ? There was nothing in their own personal experiences to confirm such a belief. In other words, people in foreign countries who believed that it was possible, without changing the fundamental conditions, political as well as economic, to solve the German problem and persuade the fabled goose to start laying her golden eggs again, were as far from the mark as the Germans who thought that they could satisfy the German mind by stage-managing a kind of economic revival. Neither paid any attention to essentials. They left out of account both German psychology and the actual conditions under which the bulk of Germans were living.

A revolt was bound to come, a revolt against the system that disregarded these essentials. The general election in September 1930 took the whole world, including Germany herself, by surprise. It was more than a surprise ; it was a shock. Why did not the Government do something ? Prussia seemed to get along well enough under her Socialist Premier. Did the traditional obsequiousness of the German civil servant no longer hold good ? Had the German clerk lost his old faith in his satisfying if humdrum destiny of gradual social advancement ? Our sacrosanct system, moreover, has powerful supporters ; the President of the

The Nazi Appeal

Reich, the Reichswehr, the Roman Catholic Church and the trade unions. Was it conceivable that these powers had failed to make its basis unassailable?

Yet they had failed. The system was no longer immune from attack—and the attack spread rapidly. Workmen, peasants, students, clerks, schoolboys, officers, civil servants, artists, shopkeepers, waiters—people of all sorts—were growing restive, people who had remained patiently silent for years. It depended on their mental idiosyncrasies, and their greater or lesser readiness to respond to national or proletarian slogans, whether they became Communists or Nazis (National-Socialists). But they all had one aim in common—to pull down the old system, with its gloss of prosperity which, so it seemed to them, only served to conceal the real state of national bankruptcy underneath.

II. THE NAZI APPEAL

AS far as the Communists are concerned, there is no mystery, but the Nazi mind many people consider is harder to fathom. There is, however, really no puzzle in this case either. Take any German who looks down on the Social-Democrats and hates the Bolsheviks, yet at the same time despairs of the present rulers of Germany. What line would one expect him to follow? What he wants is a guide, someone who will put in unmistakable language all that he feels and more. Remember that nine out of every ten Germans want to make a better show than their position warrants. They have no desire to be called proletarians, to be put in the lower classes. Now the Nazis are no proletarian party. They represent, not a particular class, but a movement. It does not matter to them from what class they draw their recruits, or what their social standing is. Nobody, therefore, loses anything by joining them. Many even feel that they have gained in importance, because the party managers tell them that,

Germany in the Storm

however little they may count as individuals, they are of the utmost use once they have become members, even humble ones, of the great Hitler movement.

But, apart from this, it is obvious that, for the average German who feels deeply the evil days on which the fatherland has fallen from the national standpoint, and who at the same time is suffering personally from the grave crisis which has overtaken its economic and financial life, the combination of socialism and nationalism offered by Herr Hitler is bound to be extremely attractive. No other party has developed both these lines at the same time. Otherwise the Hitler policy might carry less weight, for its methods are often repulsive and its political and economic ideas feeble. Most people, indeed, realise to-day that the tide of Hitlerism could never have reached its present high water mark, if it had not found the German starved on the national and social side after years spent in the prosperity hunt and rationalisation. Republican Germany has hitherto failed to evolve either a healthy national outlook or a common social ideal. Many have attained these things, but so far they have remained merely a conception of the individual, not a political philosophy fit for the nation as a whole.

On the other hand, the objections people feel to the public attitude of many of the capitalist leaders are by no means limited to socialists. A growing number of scandals and obvious abuses of its power have made the capitalist system suspect even in the eyes of people whose admiration for it is traditional. Our social organisation and our political classes have also disappointed millions of Germans. This is the real background of Hitlerism. Its anti-capitalist policy and social programme may lack solidity and permanence in many respects, but jealousy and the natural bitterness felt by middle-class people who have lost practically everything—their money as well as their social and political standing—have come as grist to the revolutionary mill.

The Nazi Appeal

It is safe to predict that the nationalist side of the Hitler movement will carry it further than its social side, and for this it may thank the nations which won the war and their policy towards the losers. From the German point of view, there is little to show for the trying time when the policy of fulfilment, started by Rathenau and carried on by Stresemann, was in force, and the German financial collapse was so closely bound up with international politics that it rendered a purely nationalist reaction inevitable. But the object of the nationalist movement, even in the form which the *Stahlhelm* gives it, is neither war nor revenge. The German likes uniforms and discipline. All those parades are merely the collective expression of the nebulous instincts of the individuals who take part in them. Discipline and make-believe help to keep the torrent in its own bed, and there is a formidable amount of fighting spirit bottled up in such organisations as the Hitler guards and the Red-Front of the extreme Left. Preparedness and a determination to be ready to meet attack from outside are recognised as a legitimate ideal even by the circles which surround our peace-loving Chancellor, and they must be taken in that sense. Sport failed to provide healthy young Germans with an effective vent for the combative spirit. There are, moreover, plenty of people still in far too intimate touch with pre-war institutions, and it is hoped that the more or less militarist organisations in which the *Wehrwillen** finds an outlet will provide a more effective safety valve for nationalist steam. It is even more important to realise that the policy of fulfilment has for years been dubbed inconsistent with German honour, inconsistent because it was applied to that hated Peace Treaty. Stresemann himself was suspected of compromising German honour and weakening our moral fibre. A nation with strong feelings was what was wanted, said the critics.

The attitude was natural. For most Germans, neither

* Will to defend one's country.

Germany in the Storm

the results of Locarno nor the evacuation of the Rhineland brought about any change in the international atmosphere. The evacuation was bound in any case to come unless France disregarded her obligations under the Treaty. In a word, the revolt owed its success in large measure to the international situation.

III. DR. BRÜNING AND BANKRUPT PARLIAMENTARISM

NONE of these things would, however, have been enough by themselves to make the patient, even indolent, average German bestir himself. It was the bankrupt state of the German parliamentary system that actually brought about the crisis. The political parties, especially the bourgeois, were no longer of any use as instruments for a live democratic system; they had no life in them, no one trusted them. The leaders, moreover, had no idea of what was going on among the rank and file. At Weimar* every democratic nail they could lay hands on, including the disastrous proportional representation provision, was hammered home by the democrats. The system which emerged was strictly formal and doctrinaire, just in fact what one would expect in a country where everything has to be set down in black and white and formulated in the most scientific manner. This was, of course, the very way to kill parliamentarism. Furthermore, the long periods of coalition between the Catholic Centre and the Social-Democrats increased the danger of misuse of administrative powers.

The want of a common national basis was an even more fatal defect for the purpose of the democratic game. There were not only devastating differences of opinion whenever a "national" question arose, but also a growing tendency to treat a particular part of the nation as beyond the pale and to hold the Marxists responsible for everything that went wrong. The rate at which German parliamentarism

* The German constitution was drawn up at Weimar in 1919.

Dr. Brüning and Bankrupt Parliamentarism

was losing ground was further accelerated by the reckless way in which personal ability was wasted, a waste which is characteristic of German politics. The German longs for national heroes—he wants somebody to worship; but let a politician or even a statesman raise his head so much as half an inch above the average level, and he will immediately become a target for shafts from all sides. At best he will be stamped as a party politician. It is not yet realised that democracy is the only form of government that can be worked without a hero, or even a man of exceptional stature. As, however, the German parliamentary system has not yet delivered the goods, there is a tendency to try to import the heaven-sent leader from outside. It is unfortunate that our captains of industry, more often than not, seem only to have to touch politics—a new game for them—to lose every good quality that they ever possessed.

The consequence is that, for the last few years, the Cabinet has been controlled by the parties. To secure a majority in the Reichstag the support of half a dozen of them is essential, and government policy has, in fact, been directed by a group of parties which differ widely from one another in their views. This unfortunate state of affairs came to a head in the time of Dr. Brüning's predecessor, Hermann Müller. The late Social-Democratic Chancellor was one of the best men in the democratic camp and he deserved a better political fate than he actually got. But he allowed the political groups to control the government, and as most of the majority parties endeavoured to pull him in different directions, he naturally came to grief. On the one hand, there were the Social-Democrats, out to uphold the principles of organised labour, on the other, there was, on the right wing, the German People's party, which had become an organisation for the defence of big business and the interests of certain industrial groups. In the course of this conflict the Müller Cabinet collapsed, and it is also the main cause of the difficulties

Germany in the Storm

which have confronted Dr. Brüning since he assumed the leadership eighteen months ago. Such questions as wages and unemployment insurance, if left to party politicians to solve, may in the end, indeed, have a more detrimental effect upon the fortunes of the Brüning Cabinet than the assaults of the so-called "National Opposition"—Hugenberg,* Hitler and the rest.

When Dr. Brüning first took office, he hoped to solve the parliamentary problem by destroying the Hugenberg party, and building up a new front composed of all well-meaning people. A few weeks later, however—in April last year—it was already clear that this plan had failed. Only a few members of the Hugenberg party had come over, and the Chancellor found himself in exactly the same predicament as his predecessor, except in one important respect. To enable him to control the parties, the President had entrusted him with powers to govern and legislate under the famous Article 48 of the Constitution, and he could dissolve the Reichstag if it failed to agree. The majority parties either did not realise what this meant, or, like the People's party, they did not care. At all events, they went on playing the old game. None of them would give way; the People's party opposed everything that the Marxist Social-Democrats wanted, while the latter strongly resented Dr. Brüning's attempt to ride roughshod over the parties and to force the hand of Parliament under Article 48.

The climax came with the general election in September last year. The votes polled were a protest—against parliamentarism, against Marxism, against capitalism, against the Treaty of Versailles, against the economic depression, against everything indeed that was, or that seemed to be, amiss. The one thing in this chaotic state of things that staved off a still greater disaster was the old German sense of order and goodwill that has not even yet been altogether destroyed. The Nationalists of course

* Leader of the Nationalists.

Dr. Brüning and Bankrupt Parliamentarism again emerged from the election as a minority, and the Communists did the same, though both of them were returned with a considerable accession of strength. But the outstanding feature of the election was the protest against the capitalist system in which Hitlerites, Communists and Social-Democrats all joined. It was only the divergence of their aims that prevented them from being able to form an alternative government. So the Brüning Cabinet continued in office, and things remained very much as they were before. That is still the position.

In reality, Dr. Brüning had again missed the mark. His aim was a government majority independent of the support of the Social-Democrats. The strength of the Nationalist vote, however, put an end to that, for the middle-class bodies, such as the old Democratic party and the old National Liberal party, were nearly put out of action by the success of the Hitlerites. Dr. Brüning himself was taken by surprise. The only course still open to him was to try to make the Cabinet less dependent upon the parties, and to reduce parliamentary business to a minimum. His chief difficulty was a personal one. His own conscience and that of the President obliged him to keep as strictly as he could within the four walls of the Constitution. There is nothing in it which compels a Cabinet to do what the parties want, but, on the other hand, it is expressly laid down that the Government must have the confidence of the Reichstag. The question then arose, was it possible to keep the parties at a distance, and to do things that they would not agree to, without losing the moral support of Parliament. This thorny problem still occupies Dr. Brüning's mind. It is also a difficult one for the parties, who have no desire to make themselves responsible for emergency decrees imposed upon the nation without the consent of Parliament. The present short sessions of the Reichstag may have extraordinary results, and a transformation of the German democratic system is taking place before our eyes. The change has not yet assumed definite

Germany in the Storm

shape, and the negative side has hitherto been to the fore rather than the positive; but, under Dr. Brüning's guidance, Germany is endeavouring to discover a more suitable kind of democratic government than the form which has developed during the decade since Weimar—a hard task under present circumstances.

During this transformation period the structure of government has had to rely upon the support of various supplementary props instead of on Parliament. First, there is the venerable President of the Reich, Field-Marshal von Hindenburg, with not only Article 48 at his command, but the Reichswehr as well, morally if not formally. Its commander and all its leading officers are beyond all question loyal both to him and his Chancellor. Then there is the hitherto solid block comprising the Roman Catholic Centre and the Social-Democrats in Prussia, the latter representing the trade unions, a combination which puts the all-important Prussian police at the disposal of Dr. Brüning.

This extraordinary combination has, however, inconveniences of its own. The very fact that, since the election—in spite of his anti-Marxist slogan—Dr. Brüning has been on good terms with the Social-Democrats increases his troubles with the anti-Marxists. He has made it quite plain that he will not destroy or even damage such important social institutions as the insurance system or the *Tarifvertragsrecht*,* which means that he will never be a statesman to the liking of the People's party or Herr Hugenberg. On the other hand, his relations with the President and his dependence on the goodwill of the Reichswehr are thoroughly objectionable in the eyes of the radical parties. They have, moreover, also alarmed foreign observers. He has had, too, to adopt an agricultural policy which is considered to favour the big agrarian interests without solving the agrarian problem, and which injures the non-agricultural population by raising prices. It is extremely important, too, to realise

* Right of making collective agreements.

Dr. Brüning and Bankrupt Parliamentarism

that the fact that the Chancellor has to pay a price for the support of these particular props during this period of change accounts for many of the things which have aroused foreign criticism; the attitude of the Government, for instance, towards "national questions," such as the Stahlhelm parades, the construction of cruisers and the like.

It is quite possible that Dr. Brüning, himself a conservative by instinct, would have turned more readily to the right if the Nationalist slogans had not been of a kind to offend his sober temperament. He might have done so in any case, if he had been able to follow the usual parliamentary course. As already mentioned, indeed, he started, in April last year, with the idea of persuading the bulk of the conservative German Nationalist party to share the responsibility of government, and he made no effort to stop the "anti-Marxist" drive during the election campaign in the following September. He never claimed the prefix "Hindenburg" for his government, but he raised no objection when the aim of the election was declared to be the building up of a strong "national" government, and the ground on which he asked the electors to give him the clear majority that was denied him by the old Reichstag, was that his government enjoyed the confidence of the President. What he wanted was something "national," above parties and party intrigues.

It is the first time since Weimar that a German Chancellor has gone to the country with such an appeal. It made everyone who did not vote for him appear insufficiently "national." But this scheme also failed, and it did so because, in Germany (unlike England), there was a great movement on the other side which also claimed to be "national"—the Hitler party. For that reason the slogan of 1930 was changed—it became "Marxist or anti-Marxist," a war cry which corresponded more closely to the facts. But even this did not work. Parliamentary considerations as well as the exacting daily round compelled the Chancellor to keep on good terms with organised labour.

Germany in the Storm

A dictatorship would have been a way out, but, unless the dictator was ready to risk a civil war, it would not in the end have helped Dr. Brüning to avoid a compromise between the capitalist interests and those of the workmen. He was, however, never ready to accept a dictatorship, nor was it offered him. President Hindenburg would not have it.

It is an interesting speculation what would happen if the President should find an alternative government possible. Apparently there is little chance of such a thing in the present Reichstag. It would obviously have to be a government of the Right, and would require the support of the Centre party as well as of the Nationalists. But as long as the Centre see any chance of Dr. Brüning being able to carry on, he will have their backing. It may be that the wings of the majority parties will some day give up their obnoxious tactics. The Right had to come back, more or less, when it tried to withdraw from the Chamber last October, for there was no alternative government in sight, and a reconstruction of the present one would have made very little difference. The Right, therefore, are reserving their efforts. On the other hand, the Social-Democrats will do their best to prevent Dr. Brüning from being overthrown from their own side.

Everything therefore depends upon whether the Nationalists can prepare the way in the present Reichstag for an alternative government. The President will certainly not allow a general election in the near future, so the only course open to the so-called "National Opposition" is to organise demonstrations like the one at Bad Harzburg, in the hopes that the right wing of the Chancellor's majority may be tempted to fall out of the line. But, if they did respond, the position would still remain the same, unless the Centre party were to go Right. Even if the Brüning Government had been defeated in the Reichstag in October, and the President had asked some politician of the nationalist type—not Hugenberg—to try to form a government,

German Policy

the new man would certainly have failed, because the President would not have given him leave to go to the country, and in that case Dr. Brüning would have been asked to carry on, vote of censure or no vote of censure. In view of these considerations, it is possible to predict with comparative certainty what is likely to happen for some time to come. Meanwhile there is a marked tendency to try to get a better atmosphere between the Centre party and the Nazis, and Hitler's spokesman in the Reichstag has also made it clear that the Nazis recognise the necessity of an understanding with France upon conditions which do not differ in any important respect from those which Dr. Brüning and others have frequently foreshadowed.

IV. GERMAN POLICY

DR. BRÜNING then by his efforts to reconstruct the "system," both on its political and on its economic side, has certainly contributed, in however small degree, to the relaxation of the existing tension. The very fact that the Nazis have stood quietly by for so long, coupled with their leader's declared resolve to keep within the law, has made the prospect of revolutionary developments far less likely than it was a year ago, though on the other hand the growing intensity of the financial crisis has strengthened the ranks and embittered the temper of the extremists and made the general situation worse. We can but hope that the favourable tendencies will prevail. One thing is, however, certain. The prospect of imminent disaster last July convinced thoughtful Germans that if we wish to come through we must all pull together, and the morale of the nation has, with few exceptions, been admirable. This at all events is a hopeful feature. Anyhow, it must now be obvious to the meanest intelligence that Germany has no alternative except to concentrate on the really vital problems. Even the Nationalists realise the

Germany in the Storm

danger, and one hears much less talk about the need of a more active foreign policy. The customs union affair opened people's eyes. Dr. Curtius has gone and we try to forget that particular episode, hard blow though it was—the Austrian question lies very near the German heart. It was, moreover, meant to be a test case. The incident should anyhow prove that Germany, when she is in the right, is capable of taking action to protect Austria from Danube-confederation schemes and other French designs. Badly as it ended, there is no justification for the unfair attitude of self-disparagement which so many Germans have adopted towards this "adventure." It will, at any rate, keep the Austrian problem in the limelight for some time to come.

Since this episode, German foreign policy has taken a different and a more promising line, in which it has been assisted by the Hoover holiday, which made us feel that after all there is ground for hope that a more reasonable settlement may be substituted for the Young Plan. If so, much of the wind would be taken out of the nationalist sails.

If, then, Dr. Brüning approaches the problem in a frank manner, putting on one side everything which has no bearing on the immediate trouble, he will meet with little opposition. An understanding with France is already accepted in principle in practically every quarter in Germany, and, though such a policy involves putting off certain German aspirations, it is obviously out of the question to attempt to satisfy them at present. Germany's position too in the matter of disarmament has inevitably been weakened by her financial difficulties. There are only two problems, which cannot be long postponed. The first is the question of what is going to happen in February when the repayment of our short-term debts becomes due under the preliminary agreement; the second, what are we going to do before the Hoover holiday comes to an end next summer. Dr. Brüning's foreign policy will certainly be concentrated on these two points.

German Policy

So much for the future, but a word is called for to explain German action during the past critical months. The July crisis, it must be remembered, had already gone some way before its existence was fully realised. No one could have anticipated the extent to which French action had accelerated its development and helped to alarm the world—the small German investor among the rest. It is the general conviction in Germany that both the nation and the Government did all they could to convince the world that they intended a fair and honourable settlement. The banks paid out money without stint till July 12, when two of them collapsed. The right thing was also, we consider, done after the collapse. Subsequent contracts have been strictly fulfilled, in spite of the harm which was sure to result from additional payments of such magnitude. Since then credits have become dangerously shorter and money dangerously dearer. The number of bankruptcies and failures has been large—between July and August it increased by 95 per cent. The last penny has been squeezed by the Government out of business concerns and individual citizens alike. The way in which imports have been cut down has elicited protests from all sides abroad. Not long ago we had a surplus of exports for the month of not far off 400 million marks, instead of the usual excess of imports; but this result was only achieved at the expense of people who want to sell their goods to Germany. We have managed, by cutting down our trade and profits, to repay between the end of July and October another milliard of marks on account of our short-term debts, 400 millions of which were due under the July contracts, and during the first ten months of the current year over four milliards on short-term credit must have been paid back out of a total of roughly twelve milliards. But such huge amounts, on the top of all the other payments that have been made, could not be transferred during the worst depression in history, without painful repercussions, and the problem of the future cannot be solved without an

Germany in the Storm

international agreement. The German authorities, however, considered it their first duty to come to an arrangement which would permit of their short-term creditors getting their money back within a reasonable period. The position is clearly described in the famous Layton report, though the latest figures of Germany's external debt are even higher than those given in the report, and it is essential that the existing arrangement, which will come to an end in February, should be replaced by another. Meanwhile, we can only hope that there will be some indication before long of what is going to happen when the Hoover year is up.

Such is Germany's financial policy, and it is believed that there is no other way of avoiding bankruptcy or inflation. We all know people who would like to get out of paying their debts; we have them here in Germany as well, and these are the people who are at the moment pressing for a policy of inflation. It seems beyond question that restriction of credit and deflation have gone too far, and many think that the mark has been stabilised at too high a level. There is a tendency, even in responsible circles, to try to get the resulting high pressure relieved, if it can be done without danger of inflation. When England's position, owing to the attitude of her creditors and the inability of Germany to repay her short-term credits, also became critical, and it was decided to allow the sterling exchange to find its own level without official management, the temptation in Germany to follow suit was great. Conditions in the two countries are, however, completely different, and besides, although a managed currency need not lead to inflation, people in this country have such a horror of the possible risks to which such a course might expose us, that the first note of alarm in the press was sufficient to elicit a declaration, from parties and industrial organisations alike, that nothing would induce them ever to recommend an inflationary policy of any kind. The Government and the Reichsbank have followed their lead with an even more emphatic statement.

How About England ?

V. HOW ABOUT ENGLAND ?

WHAT then is England going to do ? That is the question on everybody's lips at the moment, for our fate largely depends upon the answer. At what level will the pound be stabilised when the moment comes, and what is going to be England's fiscal policy ? Lastly, what are the consequences going to be for ourselves and the rest of the world ?

The present position, in so far as Germany is concerned, is clear. She can only come to the reasonable arrangement that she desires with her creditors if her foreign trade is expanding and her home market stable. The devaluation of the pound has, however, already hit her a heavy blow by increasing the competitive strength of British industry. Coal, iron and textiles, as well as other German industries, have all suffered. Most of our people believe that the effects of the devaluation may not last—internal prices may follow the external rate of the exchange. But this need not necessarily be so—wages, for instance, may not go up. But if British economic pressure on our trade continues and we are at the same time asked to make payments which are only possible while trade is expanding, the whole situation will be completely changed for Germany.

And there is another danger ahead. There is talk in England of a general tariff, at all events of new customs barriers of some kind or other. We have vividly in mind the effects of the Italian customs policy and the difficulties that Germany is experiencing with countries like Switzerland and Denmark, in consequence of her endeavour to restrict imports and exports. The outlook is certainly dark. Turn where one will there are rocks ahead. Petrol, nitrogen, the money market, the exchange and the customs, it is the same with everything. If all these fears are realised, it will not matter very much to us whether we

Germany in the Storm

have Dr. Brüning or Herr Hitler for a ruler, or whether France is willing to disarm or not.

One thing, however, may be taken for granted. The German people has not lost hope. The guidance and the "will to live," which in the last resort may prove the decisive factors, are not absent. Here in Germany we cannot get far enough away from the scene to see things in their true perspective. It seems to us to be all chaos, particularly in the political arena. But it may be that later on it will be recognised that to-day's troubles are the inevitable repercussions of a fundamental reconstruction which is destined to transform, not only the modern State and the political and economic ideas to which it owes its present form, but, what is far more important, the men and women on whom the task has fallen of grappling with this tremendous problem.

Germany.

November 1931.

THE MANCHURIAN CRISIS

CHRONICLE OF EVENTS—SEPTEMBER 19 TO
OCTOBER 19

AN attempt is here made to extract from a welter of partisan and unverifiable reports an accurate chronicle of the development of the Sino-Japanese crisis dating from the Japanese occupation of Mukden on the night of September 18-19, up to October 19.*

Feeling against China was running very high in Tokyo during August and early September. A series of incidents occurred between Chinese and Japanese subjects in China during the summer, and early in September the Japanese press was urging a "strong" policy upon the Government and pronouncing that no less than three hundred "points" were at issue between Japan and China. Throughout this period feeling in Japan was exacerbated by a newspaper campaign in connection with the case of Captain Nakamura, who, according to Japanese military leaders in Manchuria, was murdered last June by Chinese soldiers on the borders of Manchuria and Mongolia. A meeting of the Japanese Cabinet was called on September 8 to consider the situation. At this meeting the War Minister denounced the "procrastination" of the Chinese Government in dealing with the case of Captain Nakamura. An investigation was at the time being carried out by the Chinese authorities at Mukden, and the Japanese Cabinet decided to await the conclusion of this inquiry before taking action. A resolution was passed to the effect that the military

* A map showing the region affected will be found in the appendix.

The Manchurian Crisis

and diplomatic authorities would act in concert "regarding what action is to be taken if the Chinese fail to show sincerity in promptly conducting the negotiations."

The Chinese view at this period was summed up by General Wan Fu-liu, the Governor of Heilungkiang, the northern province of Manchuria, who declared: "This so-called Nakamura affair is nothing but a pretext now being utilised by the Japanese for the realisation of their objective—penetration into Manchuria."

On September 9 the *Asahi* expressed the view in a leading article that the Japanese War Office was pressing "the security occupation of an important region in Manchuria or Mongolia."

On September 18 the Tokyo papers contained reports to the effect that General Jung Chun, chief of the staff of the Manchurian army, had informed the Japanese Consul, Mr. Morioka, that proof had been obtained that Captain Nakamura had been shot by Chinese troops on June 26, and that a detachment had been despatched to arrest the perpetrators of the outrage.

Late at night on September 18 Marshal Chang Hsueh-liang, at Peiping, received a telegram from Mukden stating that at ten o'clock Japanese soldiers opened fire upon the Chinese city, killing a number of Chinese troops, that the Chinese military camp, the arsenal and the Chinese city were under shell fire, and that the local Japanese civil authorities declared themselves powerless to control the situation. The message stated that the Chinese forces were not retaliating. Marshal Chang Hsueh-liang sent an urgent telegram in reply, ordering the Chinese troops to take no action against the Japanese. Japanese reports stated that a clash had occurred on the outskirts of Mukden between Chinese and Japanese troops after an attempt had been made by Chinese troops to destroy a portion of the South Manchuria Railway line. Later it was reported that the Japanese troops had occupied Mukden, no resistance having been offered by the Chinese.

The Manchurian Crisis

By three o'clock on the morning of September 19 all telegraphic communication of a political character had ceased. The headquarters of the Japanese army in Kwantung were transferred to Mukden, the Commander-in-Chief, General Honjo, leaving Dairen at 3.40 on the morning of September 19, on a special troop train, with 800 infantrymen. At about 4.30 in the morning Japanese troops occupied Kwangchengtze, the important junction of the South Manchuria Railway, the Chinese Eastern Railway and the Kirin-Changchun Railway, and Japanese reinforcements moved up to various points along the South Manchuria Railway. A division in Korea was given orders to hold itself in readiness to proceed on special service to Manchuria. At Tokyo a hastily convened Cabinet meeting issued instructions to the civil and military authorities in Manchuria to do their utmost to localise the issue. Later in the morning Japanese troops occupied Newchwang and Kaopangtse. Early in the afternoon it was officially announced in Tokyo that "the destroyed section of the South Manchuria Railway had been repaired," and orders already issued by the Japanese War Office to troops in Korea to proceed to Mukden were cancelled.

Although a considerable number of Chinese soldiers were killed during the shelling of the Mukden arsenal, the rapid deployment of Japanese troops and the occupation of various points was accompanied by very few casualties on either side, the Japanese losses being negligible.

The Chinese Foreign Office lodged a formal protest with Mr. Shigemitsu, the Japanese Minister to China, and on September 20 Dr. C. T. Wang announced that the Chinese National Government was "greatly exercised over the situation caused by the unprovoked attack of Japanese troops on Mukden and other cities in the three eastern provinces." He said that the Chinese Government was preparing an appeal to the League of Nations and the signatories of the Kellogg Pact.

Japanese warships were despatched from Dairen to

The Manchurian Crisis

Chinese ports on the north Shantung coast for the protection of Japanese nationals.

Feeling was running very high in Nanking, but the Government did its utmost to calm the people, and Mr. T. V. Soong, the Minister of Finance, played an heroic part in shaping and pressing this policy of moderation. The Chinese Government sent a second note to Japan.

On September 21 fighting continued in Manchuria, Japanese troops advancing towards Kirin, and Japanese nationals evacuated the province. In Harbin there was some display of anti-Japanese feeling among Soviet officials. In Tokyo there was a Cabinet crisis with regard to the despatch of additional troops to Manchuria. The news broke of the beginning of the peace movement between Canton and Nanking, which has been progressing through a web of rumours up to the time of writing (October 19), when a formal conference between the two parties is on the eve of taking place in Shanghai. A large demonstration of students was prevented by the authorities in Peiping. Meanwhile, in the evening, General Minami, the Japanese War Minister, sent reinforcements from Korea into Manchuria on his own initiative. Later Kirin was occupied by Japanese troops.

On September 22 Japanese troops were deploying towards Harbin. There was a second Cabinet crisis in Tokyo, Baron Shidehara, of the Foreign Office, and General Minami, of the War Office, taking opposite views with regard to further activities in Manchuria. The Japanese Government announced that the temporary military administrations in Mukden and other occupied towns in Manchuria were handing over to the Chinese civil authorities. In Nanking mass meetings of students took place urging a warlike policy upon the Government, and the Chinese Government took special precautionary measures to protect Japanese nationals in Nanking.

On September 23, all the Japanese evacuated Nanking. There was another mass meeting in the capital, the Chinese

The Manchurian Crisis

students demanding war against Japan. Meanwhile Japanese troops consolidated their position in the province of Kirin, and the Cabinet in Tokyo arranged for the despatch of troops to Harbin. In Nanking the first message from Geneva signed by Senor Lerroux produced a calming effect. China issued her third protest to Japan. In Hankow anti-Japanese demonstrations took place, but there was no damage to life or property.

During the next few days, various military incidents were reported from Manchuria. Wherever Chinese troops were concentrated, Japanese aeroplanes dropped bombs in order to ensure their dispersal. On September 25, the Japanese Government issued an official statement to the effect that troops were being withdrawn into the railway zone, and that small detachments only remained in Mukden and Kirin.

On September 26 there was a violent reaction in Nanking on the receipt of disappointing news from Geneva, and on September 28 a party of incensed Chinese students attacked Dr. C. T. Wang in the Foreign Office.

On September 30 Dr. C. T. Wang resigned his post as Foreign Minister. The position has not yet been filled, and the work is being shouldered for the most part by Mr. T. V. Soong. Meanwhile there are many rumours regarding independence movements in Manchuria and Mongolia, which are believed to be inspired by the local Japanese authorities. There have been accusations from China and denials from Japan, and it has not been possible to ascertain how far these movements have been serious or how far they have received Japanese support.

On October 2, Japanese aeroplanes reconnoitring dropped bombs upon Chinese troops stationed along the Harbin-Mukden Railway, and on October 4, four Japanese destroyers were ordered to proceed from Tokyo to Shanghai "owing to the increasing gravity of the anti-Japanese movement in the Yangtse Valley."

On October 8, Japanese aeroplanes dropped bombs upon

The Manchurian Crisis

Chinchow, which had been adopted, after the capture of Mukden, as the temporary headquarters of the Manchurian Government. Several Chinese were killed and the inhabitants of Chinchow were thrown into a panic. On the following day the Japanese Government explained the bombing of Chinchow on the grounds that the aeroplanes were first of all fired upon by Chinese troops. It was admitted that the Japanese aeroplanes dropped about seventy bombs, causing considerable damage.

On October 11 Mr. Shigemitsu, arriving in Nanking from Shanghai, presented a note from Japan to the Chinese Government protesting against the anti-Japanese agitation in various parts of China and warning the National Government that it must take responsibility for the consequences if the movement is permitted to continue. On October 13 Nanking replied, stressing particularly the fact that while the Chinese Government had done its utmost to control the growing indignation against Japan which had been increased by recent incidents, such as the bombing of Chinchow, it was impossible to prevent a refusal on the part of Chinese traders to handle Japanese goods. The Chinese Government declared that, in spite of Japan's provocative action, it would continue to give protection to the lives and property of Japanese nationals in China.

From now on the situation in Manchuria remained unchanged, and the centre of affairs, which had already shifted from Manchuria to the Yangtse Valley, appeared to shift once more to Geneva, where the League Council reassembled on October 13.

No attempt has been made to deal chronologically with the discussions of the Manchurian situation before the League Council or of the succession of notes and protests exchanged between Geneva and Nanking and Tokyo, or the part played by Washington. Every movement from Geneva, however slight, has been watched with intense interest in China. From the very commencement of the crisis on September 20, Chinese public opinion has been

The Manchurian Crisis

concentrated upon the League of Nations. The Nanking Government, making a tremendous and extraordinarily successful effort to prevent the outbreak of any anti-Japanese incidents, and to preserve a calm atmosphere, has emphasised to the utmost the fact that China, relying upon the moral rectitude of her case, has placed her complete faith in the power of the League of Nations to enforce a just settlement. Public opinion is inflamed or calmed by the news from Geneva, and it is not an unjustifiable supposition that a failure now on the part of the League of Nations to justify the expectations of China, would have very far-reaching results with regard to the attitude of the Chinese towards foreign interests generally. It would almost certainly precipitate the fall of the Nanking Government. It is unquestionably true that the Chinese Government has done all that could possibly be expected of any government to protect Japanese nationals and to prevent any aggravation of the situation.

The protests on the part of the Japanese Government against anti-Japanese activities have so far been supported by no definite examples that any such activities have occurred. There has been, on the other hand, considerable provocation on the part of the Japanese.

On the Japanese side, never has a case suffered so badly for want of presentation. Japan has essential interests in Manchuria protected by treaties with China. China has repeatedly infringed both the spirit and the letter of these treaties. One of the most important of the Japanese grievances was directed against the contemplated building in Chinese territory of a railway parallel with the South Manchuria Railway and a port to rob Dairen of its traffic. This proposal is believed to be a direct contravention on the part of China of a treaty, the terms of which have never been made public. But Japan has not yet tabled in any convincing form the basis of her case against China. Furthermore, it seems clear that the whole operation has represented a lamentable failure to co-operate between the

The Manchurian Crisis

Ministries of War and Foreign Affairs. The initial action having been taken on the night of September 18, the supplementary movements took place automatically in accordance with carefully planned strategic arrangements. From a military point of view, given that the first movement had been made, the further rapid deployment of troops and the prevention of any concentration of Chinese troops were necessary corollaries if a small force, strung out over a wide territory, was to be assured of protection for itself against potentially overwhelming forces at particular points.

The boycott of Japanese goods in the Yangtse Valley is well sustained. It appears to be very largely a spontaneous movement, and it does not seem to be conceivable that the policy, with which Japan was credited a week ago, and in accordance with which it was supposed that she intended to attempt to break the boycott by means of intimidation, could be successful. There have been no incidents in China involving the loss of life of Japanese nationals.

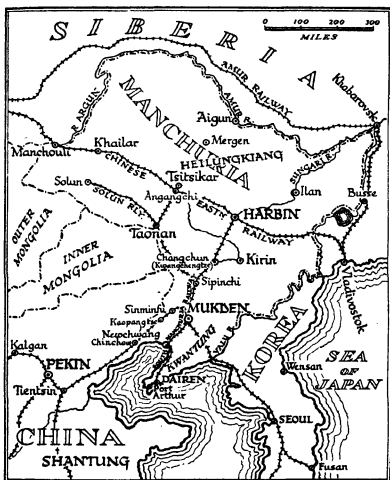
Shanghai.

October 20, 1931.

The Manchurian Crisis

APPENDIX

Map of the Region Affected



Based on a map which appeared in *The Times*, October 10, 1931.

INDIA AND THE ROUND TABLE CONFERENCE

AS on the last occasion, we write from India at an awkward moment. On the road before us—but just over the rim of the future, out of sight—lies a signpost by which our subsequent progress will be determined. Whither it will direct us it is at present* impossible to foretell; and until we actually have it behind us we cannot be sure whether, in looking back over the events of the last three months, we are as yet in a position to see them in their proper perspective. And the signpost, this time, is a bigger one than that which lay before us in the last week of July, and points to destinations much more important and remote. When our last article was in course of preparation, the chief difficulty lay in estimating the future conduct of the Congress party; that is, in deciding whether an analysis of what had occurred since the previous March, when the Irwin-Gandhi settlement was reached, suggested that the Congress really intended to send representatives to the second Round Table Conference in London, and thus to fulfil what was, from the political, if not the administrative, point of view, the most important purpose for which the settlement was designed. On that occasion, we permitted ourselves the luxury of prophecy† which, in the event, proved justified, despite the fact that, a fortnight or so after our article was completed, both Mr. Gandhi and some other prospective delegates closely associated with him announced that they had definitely decided against

* This article is dated November 1.

† See THE ROUND TABLE, No. 84, September 1931, p. 829.

India and the Round Table Conference

participating in the Conference. Possibly, within the next few weeks, the arguments we adduced in support of our forecast may prove to have been correct also. But, however that may be, the uncertainty now before us is of vastly greater scope than that provided by the intentions of a particular group of political leaders. The second Round Table Conference has now been in session for over seven weeks, and to the majority of competent observers in this country it appears to have revealed or created more difficulties than it has solved. No announcement of policy, other than that made by the Prime Minister on January 19 last, has up to the time of writing been forthcoming from the British side; and, with things as they are at present, it is hard to see how any announcement that does not consist largely of ambiguous and unsatisfactory generalities can be made. Nevertheless, as was pointed out in our last article, and as the British public, even now, is still liable to overlook, there is probably no country in the world to-day where so much of the idealism and mental energy of the educated classes is devoted to political matters as in India; and during the last two or three decades a large and increasing proportion of this section of the population—probably 80 or 90 per cent. would not be an over-estimate of their number nowadays—has been animated by an intense desire that their country's constitutional status should be in some way substantially improved. A full two years have now elapsed since the project of holding the Round Table Conference was first officially announced,* and throughout that period it has presented itself to educated Indians as the only practical means, short of directly revolutionary activity, whereby any satisfactory measure of the political advancement they have so long and fervently desired can be obtained. Should it fail, or yield results so meagre

* The day on which this article was completed was actually the second anniversary of Lord Irwin's famous statement on the subject; but rumours that some such plan was being devised had been current for months beforehand. Moreover, a conference of an approximately similar nature had been demanded on various occasions by nationalist leaders for several years.

India and the Round Table Conference

and remote as to be genuinely offensive to most members of the literate classes—we may discount, of course, in advance, the merely automatic protests which will inevitably be raised, for tactical reasons, whatever the outcome may be—the consequences would unquestionably be very serious and far-reaching. Within a fortnight from now some announcement by the Prime Minister, or the Secretary of State, of the intentions of the British Government concerning the Indian constitutional conundrum must apparently be made. Upon the nature of that announcement, and its reception in this country, will depend the politicians' conduct in the future, and the historian's interpretation of the past.

I. MR. GANDHI'S REASONS FOR GOING TO LONDON

IN describing—within the limitations imposed by our inability to anticipate the results of the Conference—the more noteworthy events and movements of opinion during the last three months, it may seem unnecessary to devote much space to the subject of the workings of Mr. Gandhi's mind during the anxious weeks when he was deliberating whether to venture to London or not. The episode in itself now seems, from our present vantage ground, curiously isolated and remote; but a good deal lay behind it, and since its significance was perhaps at the time insufficiently appreciated in England, it is proposed to take it as a starting point. It is of course true that, ever since the plenary session of the Congress at Karachi ended during the last week in March, Mr. Gandhi had spent a great deal of his time in Gujerat, listening to and endeavouring to redress the imaginary or actual grievances of the peasants, a proceeding which, incidentally, now appears to have been somewhat misdirected, since had he, instead, carried out his professed intention of devoting all his energies to seeking a solution of the communal problem, the leaders of the various groups in London would possibly have been more

Mr. Gandhi's Reasons for Going to London

accommodating to one another, and public exhibition of the disunity and mistrust that can exist between Indians might have been largely avoided. It is also true that Mr. Gandhi is himself of Gujarati origin, that his personal influence, great though it has been throughout the whole country, is most pronounced in his home province, and that the cultivators in the region concerning which the dispute arose, particularly those of the Bardoli *taluka*, have well repaid the attentions that the Congress leaders have lavished upon them in the past, and might reasonably think themselves entitled to claim special favours at their hands. But that these considerations alone explained Mr. Gandhi's conduct, whereby the participation of Congress in discussions affecting the political future of the whole of India was made solely dependent on the circumstances of a particular set of cultivators in Gujarat, none but the most ingenuous readers of Congress newspapers ever seriously believed. What really goes on in the mind of one who is at the same time an astute politician, a brilliant publicity expert, an honest and charming man, a humorist and a saint, is one of the major problems of our times, but we may tentatively put forward the following as constituting part of the explanation.

From the time when the Irwin-Gandhi settlement was reached, Mr. Gandhi, we would suggest, had never decided whether, if it came to the point, it would really be to the advantage, either of his party or of India, that Congress should be represented at the Conference. There would be serious risks to be faced whichever course was adopted; and when the Working Committee decided that he should be the sole Congress representative, the problem, by being made personal, became even more acute and involved. It was conceivable that, extreme and unpalatable though the Congress demands would be, something approximating to them might actually be conceded at the Conference. The first session had progressed unexpectedly far, and Great Britain was in a "defeatist" and pessimistic mood,

India and the Round Table Conference

distracted by domestic difficulties. Were something really substantial obtained at the second session, the Congress would look ridiculous by having refused to participate, and the politicians who had attended the Conference would return to India with greatly enhanced prestige. Moreover, by abstaining, the Congress would expose itself to the frequently repeated taunt that it is incapable of being effective except in non-co-operation, and has no capacity for constructive statesmanship. Again, while the Conference was in progress, the Congress would have a difficult rôle to play, and might lose ground throughout the country; civil disobedience, it was agreed, could not be resumed for at least some months with much prospect of success; and the Congress therefore, if unrepresented at the Conference, could do little to attract attention to itself. But by sending Mr. Gandhi to London, and retaining in India plenty of leaders capable of keeping the organisation in good trim, the Congress would place itself in a strong position, both morally and strategically. Whatever happened, it could then assert that it had done its best to obtain a settlement of its claims by reasonable negotiation; and meanwhile sufficient time would have been gained to enable the civil disobedience movement to be resumed with less difficulty, and, should the Conference fail, with more justification.

As against all this, however, there were several weighty considerations suggesting that abstention would be the wiser course. When the Irwin-Gandhi settlement was reached, the prestige of Mr. Gandhi, and of the Congress as a whole, was at an unprecedentedly high level. But enthusiasm subsides quickly in India, and already, as the summer advanced, there were signs that interest in the Congress and its activities was flagging. In the past—and particularly during the fifteen months prior to the settlement—a good deal of Mr. Gandhi's influence and authority had been due to the almost mystical air of aloofness and implacability with which he and some other Congress leaders were surrounded. But once he committed himself to journeying

Mr. Gandhi's Reasons for Going to London

to London, to negotiate with members of the British Government in company with a crowd of his own compatriots, he would descend nearer to the level of ordinary humanity, and lose something of the advantage which his intransigence and Mahatmaship had previously conferred upon him. And this was not all. Although the numerous other groups and interests which have been given representation at the Conference are very amorphous and ill-organised—the Congress being almost the only body in India which can be said to approximate in effectiveness to a political party as the term is understood in Great Britain or the Dominions—many of the delegates who have been chosen to speak for them are extremely able and practical men, have spent years in public life, and in some instances have had extensive administrative experience. The question must surely have arisen in Mr. Gandhi's mind, as it certainly did elsewhere, whether, when sitting in deliberation with compatriots of this intellectual calibre, and with members of the British delegation, his own personal reputation would not suffer—despite his legal training and effectiveness as a speaker. Then, again, there were certain skeletons in the Congress cupboard which would probably have to be disclosed at the Conference, but which in India might still be safely kept in darkness. The question of federation, for example. The Congress press, when the first Conference was in progress, seemed jubilant over the *volte face* of the Princes, applauding their action as a great patriotic move which would advance the nationalist cause. But actually the declaration of the States' representatives in favour of federalism took most Congressmen by surprise, and disorganised their political philosophy. For years they had thought only in terms of British India, and the more optimistic among them had believed that, by capturing the existing central Government, and over-riding such opposition as the Moslems, Liberals and other indigenous opponents might be able to muster, they would in time be able

India and the Round Table Conference¹

to absorb the States into British India by a process of mediatisation and establish a united Indian republic. The ultimate implications of the Princes' action were therefore, despite protestations to the contrary, displeasing to Congressmen; and although Mr. Gandhi's public utterances on the subject had been very discreet, he could not be expected, when it came to the point, to agree that the new Federal Government should be established on the Australian model, that is that it should be little more than the "agent" of the various Provinces and States, or that the Princes should have substantially more seats reserved for them in the Legislature than the population of their territories would normally warrant, or that the politicians of British India should be denied all right of interference in the States' internal affairs. Further, there was the communal problem to be faced, and the position of the Congress with regard to this, at the time when Mr. Gandhi had to make his decision, was embarrassing. The Congress press, of course, has for years sedulously fostered the idea that communal antagonism is not a natural growth, arising out of long-standing social and religious differences, and complicated by the advent of democracy, but a canker in the body politic artificially created by the British for their own purposes; Congress leaders have frequently claimed that, were they free to devote their undivided energies to this problem, they could solve it in no time. Yet, instead of concentrating his attention on the communal issue, Mr. Gandhi, as we have indicated, had spent the larger part of the period available since his triumph at Karachi in investigating agrarian grievances in Gujerat, and such communal negotiations as there had been* had been so entirely fruitless that, shortly before he was due to leave for London, the Congress Working Committee had thrown up the sponge and, by definitely plumping for joint electorates, had antagonised the bulk of Moslem opinion in this country. Finally, it was to be anticipated that, if Mr. Gandhi went

* See THE ROUND TABLE, No. 84, September 1931, p. 825.

Mr. Gandhi's Reasons for Going to London to London, his reception by some of the other delegates would be rendered somewhat awkward by the claim, so unremittingly made on his behalf by his admirers, that the Mahatma represented the united voice of an Indian nation, and that no other Indian present at the Conference would have a right to speak.

There is good reason to suppose, therefore, that the Gujerat business really had very little to do with Mr. Gandhi's hesitation about going to London; and in this analysis of supplementary reasons it is possible that there will be found the explanation of much that has subsequently happened at the Conference. No doubt Mr. Gandhi was perfectly sincere in the concern that he evinced for the Gujerat peasants, though it may be pointed out that, in so far as mere impoverishment consequent upon the economic depression and the civil disobedience movement was concerned, he could have found much harder cases elsewhere. No doubt also he was to some extent misled by Mr. Vallabhai Patel, who, it would seem, has always been averse to the Congress participating in the Conference, and who has much greater local knowledge than Mr. Gandhi, into supposing that the condition of the peasants, and the conduct of the district authorities, gave more grounds for dissatisfaction than was actually the case. But the real reasons for his agitation were certainly more substantial, and the state of affairs in Gujerat seems to have been selected only as a convenient means of bringing them to a head. If the Government, in order to secure the representation of the Congress in London, could be induced to concede his demands, constitute a committee of enquiry, and perhaps even admit the principle that the Congress was entitled to act as an intermediary between the administrative officers and the people, Mr. Gandhi could leave India with the assurance that the enormous prestige which he had enjoyed at Karachi, but which had subsequently shown signs of waning, had actually been enhanced. The Government, however, acted with commendable caution ;

India and the Round Table Conference

the Congress "charge sheet" was promptly and effectively answered; time was allowed to elapse without decisions being reached; a detailed schedule of breaches of the settlement on the part of the Congress, which it was believed that the authorities had ready for publication in certain eventualities, was not released; and in the end Mr. Gandhi suddenly pocketed his scruples and departed for London without having obtained more than an insignificant fraction of what he had demanded.

II. THE REACTION IN INDIA TO THE CONFERENCE PROCEEDINGS

WE must now briefly indicate how the negotiations in London since the Conference actually began have affected the state of opinion in India. There is no need to deal with the subject chronologically, since the proceedings have been better known to the British than to the Indian public, and in any case by the time these words are read, the significance of the detailed day-to-day events will have been interpreted in terms of the final result, which is as yet unknown to us. A few general impressions must therefore suffice. Firstly, then—since we have been dealing with the topic hitherto—there are the reactions to Mr. Gandhi's activities. For weeks after his arrival in England, and even during the voyage, the Congress press was turgid with accounts of every detail of his new existence, and strenuous endeavours were made to sustain the belief that the Mahatma's presence in London would work a miracle. "Gandhiji's conquest of Lancashire" was jubilantly announced; the special traffic arrangements made during his passage from the East End to St. James's Palace were carefully noted, as indicating his peculiar status; great significance was attached to the fact that, in first attending the Conference, he was given a seat next to Lord Sankey; and crowds were reported as cheering him,

The Reaction in India

just as in India, wherever he appeared. But this excited interest could not be maintained for long; the patent failure of the Mahatma to advance the Conference proceedings by miraculous or other means, and particularly his inability to settle the communal problem, caused steadily increasing disillusionment, and at present it would be true to say that Mr. Gandhi's stock in this country is lower than it has been since 1929. This is in many respects regrettable. For should he desire to revive the reverence and enthusiasm for himself, there is no doubt that he could do so, at any rate for a while, by issuing orders for a resumption of civil disobedience; and the reports received of the speech he made yesterday to the Commonwealth of India League would seem to indicate that he contemplates action of this kind. On the other hand, should he decide, on returning to India, to shut himself up in his *ashram* and eschew politics again, the results might be equally unfortunate, since those on whom his mantle might descend would find it hard to resist the temptation to acquire prestige by initiating some fresh subversive movement; and no one believes that any of the possible successors to Mr. Gandhi would be able—and some would not wish—to keep the movement even nominally “non-violent.” Before we finally leave this topic, the attitude of the Europeans in India to the Mahatma's activities in England is worth commenting on. Some, particularly the more “race-conscious,” exhibited signs of annoyance and perturbation at the unexpectedly warm reception he obtained, and fears were expressed that the ignorant and impulsive British public might be deluded into the belief that he is what he claims to be, the spokesman of a united Indian nation. To others, however—as it also did to practically every educated Indian—it gave genuine pleasure, as illustrating the natural hospitality and large-heartedness of their race; and had Mr. Gandhi, as was anticipated in certain quarters, been subjected to insult, particularly in Lancashire, the consequences here would certainly have been unpleasant.

India and the Round Table Conference

The settled pessimism which now obtains in Congress circles concerning the outcome of the Conference is largely due to disappointment over the achievements of their leader ; and in a section of the press, insinuations are becoming daily more frequent that the Mahatma has been outwitted by the subtleties and anti-Indian machinations of British politicians. Acute depression also prevails in almost every other school of political thought, the Liberals being particularly downcast. On all sides, and amongst responsible far-seeing men, one hears it argued that since, apparently, no workable constitution satisfactory to nationalist sentiment can be obtained for a number of years, India must seek relief for the malaise she suffers from in the same way as other countries similarly afflicted have done in the past, that is, through drastic internal readjustments involving bloodshed. Only by surgical methods, it is suggested, can the agonising pangs caused by the birth of so immense a nation be tolerably shortened. There is widespread recognition, amongst intelligent Indians, that no one can reasonably be blamed for this ; that the necessity arises naturally from the complexity of the disease. But this does not alter the gist of the argument ; and it is also generally held that the second session of the Conference, which is likely to be the deciding factor, has been attended by singular misfortunes from the outset. The first session achieved some surprising results. By the unexpected decision of the Princes in favour of federation, the whole nature of the constitutional problem was altered, and responsibility at the centre, which has so long been the unattainable goal of nationalist aspirations, was suddenly brought within reach ; the session also created an extremely valuable "atmosphere." On the other hand, the rapidity of the advance was somewhat misleading, since, except for the question of provincial autonomy,* all the important decisions made were of a provisional nature and not

* Also recommended in the Report of the Simon Commission.

The Reaction in India

elaborately worked out. The second session, therefore, was not only exposed to all the disadvantages from which a "sequel" ordinarily suffers, but was also required to fill in, in a painstaking practical manner, the details of a sketch whose outlines had already been drawn, and in which no exciting modifications were likely to be made. Meanwhile, in India, between the first and second sessions of the Conference, the situation had become a good deal more confused. Communal relations had markedly deteriorated, not only owing to the breakdown of the negotiations between the leaders of the orthodox and nationalist Moslem groups, but also to an increase of friction between Hindus and Moslems in their ordinary day-to-day relations. Memories of Cawnpore were no doubt partly responsible for the latter, and also the riots in Kashmir, whose implications were far more important than people in England appeared to appreciate. In addition, the attitude of some of the Princes towards the prospects of federation was becoming noticeably hesitant.

Thus when the first batch of delegates left for London the political atmosphere here was already murky, and what has happened since has only increased the prevailing gloom. Despite optimistic declarations by Lord Sankey and others, the progress made as yet towards solving the four major questions left open by the first Conference—namely, communal relations, the terms on which the Princes would consent to federate with British India, the nature of the "safeguards" to be provided under the new constitution, particularly with regard to the army and finance, and the protection to be afforded to British trading interests—seems to Indian observers to have been infinitesimal. In the extremist press the deplorable failure of the negotiations for a communal settlement is generally ascribed to British intrigue, the contention being that the delegates were intentionally selected in such a way as to render agreement between them impossible. Elsewhere, however, it is recognised that, while political organisations

India and the Round Table Conference

in India remain in such a rudimentary state, a considerable number of those invited to attend a conference such as this must inevitably be identified with some extreme point of view. But it was hoped that, when deliberating together in a foreign country, beyond the reach of their more vociferous supporters, Indians of all schools of thought would be able to compose their domestic differences; that they have, nevertheless, failed to do so has caused widespread disappointment, and few observers in this country believe that a real communal settlement can now be effected here for several years, particularly now that the Depressed Classes, Anglo-Indians, Indian Christians and others have started claiming special representation in the Legislatures on the same grounds as the Moslems and Sikhs. The hesitations and reservations of certain Princes have also given rise to alarm. Some of the major rulers whose activities were most conspicuous at the first Conference have not journeyed to England at all, and the Maharajah of Bikaner, who appears, more than any other member of his order, to have been responsible for the attitude that the Princes adopted last year, is now returning home. Significance is also attached to the fact that the press messages sent through concerning the course of events in London have been noticeably less voluminous and informative than on the previous occasion. As a whole, the proceedings seem to have been entirely overshadowed by the political crisis in England; and the appointment of a member of the Conservative party as Secretary of State, followed by the staggering success of the Conservatives at the polls, is interpreted as being of ill omen for India.

The prevailing view here at present regarding the outcome of the proceedings in London is therefore approximately as follows, though it may, of course, be falsified by the events of the next fortnight. The Conference, it is believed, will in two senses prove a failure; that is, it will reach no final conclusions on a number of the most

The Reaction in India

controversial points at issue, and such provisional decisions as are made will fall short of those demanded by the bulk of nationalist opinion. The British Government, it is assumed, will have to impose an arbitrary settlement in certain matters, particularly as regards the communal difficulty, and then proceed to draft a Bill for presentation to Parliament, incorporating therein such features as the Conference has been able to agree upon. Possibly certain eminent Indians will be asked to assist the Parliamentary Committee in its work, but no Congressman will be among them. When, or before, the Bill is passed, it will be vociferously repudiated by large sections of political opinion here, and the resultant state of affairs will be not unlike that which existed after the introduction of the Montagu-Chelmsford reforms. Many nationalist politicians now appear to consider that an imposed settlement would be a positive benefit to them. Under any imaginable new constitution, they must surely obtain at least a little more control over the direction of their country's destiny than they have under the existing constitution, and if any feature of the machinery is of purely British manufacture, it will enable them to restore an appearance of unity among themselves, by denouncing on patriotic grounds what many, no doubt, will subsequently be willing to make quiet use of. But the Congress certainly will be anxious, and perhaps able to do more than this. Recovery from the effects of the last civil disobedience movement is still far from complete, and the general economic depression, despite the slight improvement in trade caused by the depreciated currency, remains intense. The country, therefore, is in a very abnormal state. Were the Congress leaders to decide, as a protest against the conclusions reached at the Round Table Conference, to resume civil disobedience, the consequences would be extremely serious, and might possibly lead direct to that general breakdown of the social and political structure which many thoughtful observers believe to be ultimately inevitable.

India and the Round Table Conference

III. THE FINANCIAL CRISIS AND OTHER MATTERS

FROM the purely administrative point of view, the three months that have elapsed since our last article was written have not been very eventful. Riots have been few in number, the most noteworthy having been the disorders in Chittagong on August 31, consequent upon the murder of a Moslem police officer, and the renewed disturbances in Kashmir on September 22 and 23; both were of the communal type. Agrarian unrest continues, particularly in the United Provinces and Gujerat, but does not appear to have become worse. In Burma, murders, dacoities, and affrays between the forces of the Government and wandering rebel bands are still reported almost daily, and no one in Delhi appears to pay much attention to them, or to know how a revolt which has now been in progress for over ten months can be suppressed. At the end of July, when our last article was in course of preparation, there had been a sudden revival of terrorist outrages—the attempt on the life of Sir Ernest Hotson, the stabbing of two British officers in a railway train, and the murder of Mr. Garlick having occurred within a few days of one another. Subsequently there was a lull, the attacks on the Commissioner of Dacca at Tangail on August 21, and on Khan Bahadur Ahsanullah at Chittagong, on August 30, having been the only noteworthy crimes of this nature between the end of July and the end of October; but within the last week there have been two further outrages of the worst type, the attempts on the life of Mr. Durno, in Dacca, and Mr. Villiers, in Calcutta, having been almost simultaneous. In an endeavour to deal with the situation in Bengal, the Viceroy has been compelled to promulgate an Ordinance extending the scope of the Bengal Criminal Law Amendment Act; but none but the most optimistic believe that measures such

The Financial Crisis and Other Matters

as this can stamp out terrorist crime altogether. As regards the Congress, throughout the three months the various leaders, although they have kept quiet for fear of embarrassing Mr. Gandhi, have been by no means inactive, and there is reason to suppose that their preparations for a renewal of the conflict with the Government have made considerable progress. The members of the Working Committee might, of course, if they decided on the resumption of civil disobedience this year, find it difficult to arouse the same desire for gaol life among their followers as on the last occasion; moreover, funds to finance an extensive campaign must still be short. But it is advisable to remember that the success of the 1930 movement took most authorities here by surprise; that loyalists have been greatly discouraged by the events of the last few years; that the general economic depression and the imposition of fresh taxation have rendered the Government unpopular both among the peasants and the middle classes; and that many of the influential *zemindars* have been estranged by the policy adopted with regard to the remission of rents. While, therefore, there might be less active enthusiasm for civil disobedience, were it renewed within the next few months, there is nevertheless a good deal of latent hostility to Government seeking to find a vent.

As this article has already extended beyond the limits it was intended to fill, the concluding paragraphs, describing the effects which the financial crisis of September had on the movements of Indian political thought must perforce be condensed. In any case, at the moment, an analysis can be no more than provisional, since the emergency session of the Legislature, convened for the purpose of passing the new Finance Bill, is not due to meet until three days hence. At the time the crisis arose in India, as in England, it had been believed for weeks beforehand, that something of the kind was inevitable—the Simla session of the Legislature was in progress, and opinion was therefore able to consolidate fairly rapidly. When the news was

India and the Round Table Conference

received on September 21 that Great Britain had abandoned the gold standard, and that the Viceroy had forthwith issued an Ordinance providing for similar action in India, but without establishing any relation between the value of the pound and the rupee, there was of course some consternation, but the general view was that the Government's action would prove popular. Ever since the rupee was stabilised at 1s. 6d. by Sir Basil Blackett in 1927, such nationalist leaders as were concerned with financial affairs had protested that so high a rate of exchange was contrary to the country's interests, and during 1930, there was reason to believe that a deliberate export of capital was being organised, particularly in Bombay, by individuals who stood to gain substantial profits by forcing the Government to depreciate the currency. The implications of the Ordinance therefore, although surprising, were by no means unsatisfactory; but when it was promptly followed by the Secretary of State's announcement that the rupee would be linked to sterling, instead of being allowed to find its own level, intense resentment was aroused. Into the technical details of the arguments used we need not enter. For it was clear that, even if India stood to lose in one way, she certainly would gain greatly by the fact that the cost of her sterling commitments would not be increased by the rupee depreciating *versus* the pound; moreover, the undertaking of the British Government to render financial assistance to India in certain eventualities was at the same time renewed. Actually, the indignation evoked by the decision taken in Whitehall was based far more on constitutional than on financial considerations. Not only had no reference to a matter closely affecting India's interests been made to the Indian Legislature, which was at the moment in session, but there were also grounds for supposing that arrangements provisionally made by the Viceroy-in-Council had had to be modified as a result of peremptory orders issued from the India Office. Such an incident naturally caused serious offence to Indian

The Financial Crisis and Other Matters

nationalists ; there was, moreover, a good deal of sympathy with them in European circles, since the conviction is growing that it is impossible to rule a country in two places at once, and that the intervention of Whitehall in all important matters of policy is tending to paralyse the administration at a time when strong government of some kind is imperative. Comments of this kind were also prevalent during the course of the negotiations between the Government and Mr. Gandhi in August. Had all three Indian members of the Viceroy's Council, and possibly the Finance Member as well, tendered their resignations over the currency question, it would have occasioned little surprise.

The emergency budget which Sir George Schuster shortly afterwards presented to the Legislature, and which is to come up for detailed discussion during the special session a few days hence, is certainly a drastic one, and it is difficult to predict its fate. On the whole, however, the prospects seem favourable. Substantial economies by way of retrenchment are to be effected, and the fresh taxation proposed is fairly evenly distributed ; and since the depreciation of the currency has given some stimulus to trade, the sacrifices required may, perhaps, be more easy to bear than appeared likely in September. But if it becomes clear, during the course of the next week or two, that civil disobedience is to be resumed, all estimates of the future course of events, both as regards finance and administration in general, will have to be revised.

India.

November 1, 1931.

GREAT BRITAIN

I. THE GENERAL ELECTION

THREE months ago a Labour Government was in office, supported in the House of Commons by 280 Labour members, over 50 Liberals and a few Independents. To-day a National Government is in power, supported by 473 Conservatives, 68 Liberals divided into two roughly equal groups, 13 Labour members and 2 Independents. The official Labour party can count on only 52 members in the House of Commons, and this handful, together with the Lloyd George family party of four, form the Opposition. Such is the result of a series of events culminating in the most sensational general election in British political history.

The story of these events, though dramatic, can be told almost uncontroversially, thanks to the volume of the revelations made by the participants during the election. The last issue of *THE ROUND TABLE** left the Labour Government struggling with the necessity of meeting enormous deficits in prospect for this year's and next year's budgets. It is now known that this deficit had been estimated at nearly £75,000,000 for this year and at £170,000,000 for next year. Moreover, these deficits, the growing world crisis and the ever mounting costs of the "dole" had profoundly shaken the confidence of the world in the value of sterling, and, besides this, foreign countries, also in difficulties, had been withdrawing their deposits from London

* See *THE ROUND TABLE*, No. 84, September 1931, p. 836.

The General Election

so as to increase their own liquidity. Concurrently with their task of balancing the budget, the Government also felt constrained to obtain credits in foreign currencies in order to prevent the depreciation of the pound—an original credit of £50,000,000 obtained by the Bank of England for this purpose having been almost used up.

The whole Labour Cabinet realised that the balancing of the budget was an essential preliminary to the restoration of confidence in sterling. They were substantially agreed also that the budget must be balanced on the principle of "equality of sacrifice," and part of the deficit would have to be met by economies and the rest by increased taxation. In their earlier discussions considerable progress was made in defining the details of a plan, which in its final form took shape in a "provisional" agreement to effect economies totalling £56,000,000 a year at the expense of the defence services, the civil service, the teachers, the police, and the unemployed. The agreement was "provisional" in the sense that it awaited, for confirmation, the details of the new taxation by which economy was to be supplemented. Since these details of new taxation followed in the main the principles laid down by Mr. William Graham,* it would appear that at one time the Labour Cabinet were ready to present to Parliament a scheme practically identical in principle and largely identical in detail with that subsequently presented by the National Government. Indeed, Mr. Baldwin, who was consulted as leader of the Conservative Opposition, has since stated that he believed that the Labour Government would face their task, and that he had promised them help in facing it on the lines foreshadowed to him. But when the plan was presented to the Trades Union Council, that body rejected it. It would, Mr. Henderson considered, be no use going on unless the Government carried their own people with them in the economies that they proposed. The

* See an article by Mr. William Graham in the *Daily Herald* of September 3 last.

Great Britain

Cabinet became sharply divided and, after toying with the idea of a revenue tariff, finally came to an open rupture. The breaking point was the proposal to reduce the rate of unemployment benefit by 10 per cent.,* though it is doubtful whether unanimity would ever have been possible in face of the hostility of the Trades Union Council. This reduction was in itself less than other forms of retrenchment at the expense of the unemployed already agreed upon, and Mr. Alexander, one of the dissentient Ministers, had reported that an adequate cut in unemployment benefit as well as in the public services all round was essential to the acceptance of cuts in naval pay. Moreover, it had been found impossible to procure the required foreign credits without increasing the amount of the proposed economies. Nevertheless all the members of the Cabinet except the Prime Minister, Mr. Snowden, Mr. Thomas, Lord Sankey, and Lord Amulree resigned.

Mr. MacDonald might easily have given up also, but at the request of the King he decided to try to form a National Administration. Mr. Baldwin, whatever may have been his ambitions for himself or his party, at once agreed to support him, and Sir Herbert Samuel, who was leader of the Liberal party during the illness of Mr. Lloyd George, also consented to co-operate. The new Government was formed for the particular purpose of balancing the budget and restoring confidence in the national credit.† On the completion of its task it was understood that Parliament would be dissolved as soon as circumstances permitted. A small Cabinet of ten members was formed. Parliament was at once summoned, and on September 10 Mr. Snowden presented a second budget which practically enacted the plan from which his former colleagues had broken away. Besides the economies already detailed — totalling

* The proposal involved a sum of £12,800,000.

† See Mr. Baldwin's statement on August 24. The official announcement stated that "the specific object for which the Government is being formed is to deal with the national emergency . . . when that purpose is achieved the political parties will resume their respective positions."

The General Election

£70,000,000 in a full year—Mr. Snowden proposed to raise (in a full year) £57,500,000 by increases in direct taxation, £24,000,000 by indirect taxation, mainly confined to beer, tobacco and petrol, and £20,000,000 by reducing the Sinking Funds to the actual contractual obligations contained in the prospectus of the various Government loans. This plan balanced on strictly orthodox lines the budgets of 1931-32 and 1932-33.

But the nation was by no means out of its difficulties. It would, indeed, have been foolishly sanguine to suppose that a balanced budget was a sufficient buttress for sterling. Other unfavourable factors persisted. The value of a currency depends just like the value of everything else upon the laws of demand and supply, and the demand for sterling continued to be less than the amount offered. One reason was that the balance of trade was unfavourable to this country, and on that account alone sales of sterling probably exceeded purchases by nearer £2,000,000 than £1,000,000 a week. A second reason was the continuance of financial panic in foreign money centres, which induced foreigners holding sterling securities or balances to realise them, and convert the proceeds into foreign currencies. A third reason was the lack of unanimity. The opposition of the Labour party gave the world the impression that the British nation was indifferent to its danger or at least not united in facing it. Finally, certain incidents in the Atlantic fleet at Invergordon were interpreted abroad as the possible beginning of a general naval mutiny and the prelude to a revolution against the National Government. The part that sailors had played in starting revolutions both in Germany and in Russia was recalled. What actually happened in this case was that the proposals for reductions in naval pay were promulgated without sufficient explanation or sufficient inquiry into the results upon individuals. A certain section of the Atlantic fleet refused duty. There is not the slightest reason to minimise the serious nature of this action, which was

Great Britain

indefensible and deeply resented, as subsequent events showed, by the navy generally. But when the steps, which might well have been taken before the trouble, had been taken, and the Atlantic fleet had been sent to its home ports with the promise of inquiry into cases of hardship, no further difficulty was experienced. Meanwhile, however, the damage had been done. Throughout a critical week, the sales of sterling increased in volume and most of the credits of £80,000,000 obtained by the Government for its support were exhausted. On September 21, Parliament sanctioned the suspension of payments in gold, which had been the guarantee of the gold value of sterling, and the pound was left without artificial defence.

A new situation was thus created. The National Government had failed in its technical object of maintaining the gold standard, but it had balanced the budget and succeeded in achieving its material object of preventing a currency collapse which would have been reflected in soaring prices. The pound bought less abroad, but it still bought practically as much at home as ever it did. There was no internal inflation such as would start this country on the slippery slope of printing money. Nevertheless, no one could tell how long this relatively favourable situation would continue. The Government took immediate powers to correct adverse monetary influences and to check profiteering; but, after all, the powers of a Government in these directions are limited. It became clear at any rate that a National Government's task was by no means ended with the balancing of the budget. At this point controversial issues, so far dropped by mutual consent, began to appear. Clearly if the country was to be preserved from internal inflation, the trading accounts must be balanced. But how was this to be brought about? All sorts of suggestions were made; an international conference; the prohibition of certain imports; some maintained that the pound, no longer tied to gold, should be left to find its own level. This, it was said, would automatically

The General Election

rectify the balance of trade, and if the pound were kept, as it could be, between two extremes, there would be no risk of prices rising sufficiently to render an increase in wages necessary. Lastly—a suggestion which, unlike the others, raised a first-class party question—there were tariffs.

The immediate thing to be decided was whether the Government should go to the country. Some, notably Sir Herbert Samuel, the Home Secretary, and many of the Liberals, were for the existing Government continuing its task. The bulk of the Government's supporters, however, including the whole Conservative party, were for an immediate election. Foreign confidence, it was contended, could only be restored by a strong government with a fresh mandate, and such a mandate was in any case necessary, for the existing Government had only had an uncertain majority of 65, which would preclude it from taking highly contentious steps, even if it felt them to be essential to meet the needs of the situation. Besides, if the Government waited, their chances of winning an election later on might, as one of their opponents, Mr. Graham, had pointed out, be less rosy. They would certainly have to do a number of unpopular things, and a full five years term would not be too long for their purpose. Those opposed to an election considered it both unnecessary and risky; unnecessary because the Government had still two years to run, and the national emergency, their official *raison d'être*, still persisted. The people's support could, they claimed, be assumed. The Government, moreover, had not as yet an agreed policy, and an election would, it was contended, only confuse people. As regards risk, it was felt—an anxiety that was largely shared by the City—that the uncertainty, which must prevail during an election campaign, would probably still further depress trade, and with it the pound. It would, at all events, distract Ministers whose entire energies were required for their task. After all, too, the result of the election might not be so satisfactory as was hoped. It was also felt that

Great Britain

Labour, nonplussed by the situation, might, if only to save its face, commit itself to an extreme programme, and in any case bitterness would result from the election, and the chances of bringing every party into the National fold be lessened. In some quarters the Conservatives were accused of forcing an election for party purposes. But it is unnecessary to pursue this matter further. In the end, an immediate general election was decided upon, the Liberal supporters of the Government acquiescing, in spite of Mr. Lloyd George's disapproval.

The question of the form of the appeal also gave rise to disagreement, but after a fortnight spent in search of a formula which would reconcile all differences, the Prime Minister again cut the knot. He decided to go to the country on a simple national appeal—a doctor's mandate, as he called it. He would ask to be granted a free hand to use any and every method, including tariffs, expansion of exports and contraction of imports, commercial treaties, mutual economic arrangements with the Dominions or any other expedient which might be found useful to save the nation from a currency collapse, and he issued a manifesto in this sense, upon which the political parties ranged themselves in a new order.

The dividing line at the election lay between those who believed that the danger to the currency was the vital consideration of the hour, and those who, either denied the existence of such a danger, or thought it less formidable than some other danger. To this second category belonged the official Labour party, who fought the election on the contention that the whole national emergency was a capitalist manoeuvre—the so-called “bankers’ ramp”—and on a programme the main planks in which were the reversal of the cuts in the services and unemployment pay, the conversion of privately owned industries into public utility corporations, the control by public boards of imports, exports and investments, the removal of the control of the banks from private hands, the nationalisation

The General Election

of the land, and free trade. Mr. Lloyd George had supported the formation of the first National Government but was throughout strongly against an election. He now declared that it was a Tory ramp—a plot by the Conservative party to obtain power to impose a general system of protective tariffs under cover of a national appeal, and he advised Liberals to vote for Labour rather than for the Government. The Liberal party, however, ranged itself behind the Prime Minister, though it was divided into two sections—one led by Sir John Simon, the nucleus of which was formed by those who had disapproved of the former policy of supporting the Labour Government, and the other by Sir Herbert Samuel, which shared Mr. Lloyd George's fear of tariffs, but not to the extent of refusing to participate in the Prime Minister's appeal. The Prime Minister himself led a small band of candidates described as "National Labour," whose success was an astonishing feature even in so astonishing an election. Mr. Baldwin brought to the National cause the whole of the Conservative party. He himself showed moderation and loyalty to the Prime Minister during the contest, defining the issue as the defence of the pound—tariffs, in his view, were useful, but subordinate to that end. The bulk of the party followed this line, but certain members, of whom the most prominent were Lord Beaverbrook and Mr. Amery, did their best to make the election a fiscal dog-fight. How mistaken they were appears from the fact that the candidates whom they supported were relatively the least successful of those championing the National cause. Had the advice of the extreme protectionists been taken, there would have been many three-cornered fights, but this danger was in fact generally avoided. The result was an unprecedented triumph for the National Government. Every one of the Ministers in the late Labour Cabinet who had resigned, except Mr. Lansbury, was defeated, and of the junior Ministers only Sir Stafford Cripps, Major Attlee and seven others were returned. The greatest personal

Great Britain

triumph was the victory of the Prime Minister in his old constituency, but the reasons for his victory prevailed generally all over the country. It is widely believed that the bulk of the women's vote was cast for National candidates. The most telling arguments for the National cause—advanced by Mr. Snowden in a series of devastating addresses—were that the Labour leaders had run away from their duty; that their victory would mean irretrievable ruin, endangering all savings (Post Office savings among the rest); that the one issue was whether these men should be returned or a strong National Government determined, as it had already shown, to restore confidence at home and abroad. The municipal elections which followed a few days later went much the same way. No doubt the National candidates benefited as much from the mistakes of their opponents as from their own merits. Mr. Henderson and his colleagues protested too much, always a dangerous line. Moreover they took up an almost impossible position in fighting economics of which they had recently so largely approved, and it was difficult to unfurl the banner of free trade after their recent flirtation with a tariff. Above all they had, it was generally felt, resigned in consequence of the attitude of an outside body, the Trades Union Council, towards their proposed economics, and, on top of everything, it was a mistake to offer people shouting for help in a bog a programme better suited for the millenium.

During the campaign the forebodings about the effect on the currency were not borne out. It remained remarkably steady right up to the declaration of the result. This was, no doubt, partly due to the growth of confidence in the victory of the National Government, but it was also largely a consequence of the troubles of other countries, especially the American banking crisis, which discouraged people from selling sterling to buy dollars.

What is to happen next? Labour has received a stunning blow. With a representation of only 52 members it is

The General Election

reduced to comparative impotence in the House of Commons—some indeed think that it will never completely recover, and as it is there are divisions in its ranks. The party whip has been refused to Mr. Maxton and the four of his friends who were returned at the election, and the chairman of the Independent Labour party has suggested that a breach with his group may not be far off. There is talk too of a feeling that the unions might be better off if they looked after their own affairs. It must be borne in mind, however, that the very fact that the doors of Parliament are shut upon the Labour leaders is likely to lead to greater activity in the industrial sphere, and even in the political one, their party polled nearly 7 million votes out of close upon 21½ million. History shows, too, that big battalions have a way of melting. The National majority is the largest on record, but it is by no means the most homogeneous, and strength has dangers of its own. One result of the election has been to force Labour to reconsider its whole policy. A resolution was recently passed at a joint meeting of the Labour party and the Trades Union Council in favour of closer collaboration between the political and industrial wings in framing political policy; a course which, as *The Times* has pointed out, is easier to follow in opposition than in office. But the resolution evades the basic question; is the Labour party to remain primarily a trade union party or to become a national party? That this is a live question is clear from an article by Mr. Lees-Smith, Minister of Education in the late Labour Government.* In his view, the Labour party "must descend from poetry to prose."

Its policy must appeal to disinterested men of good will in all classes, for it is now clear that a Government with a majority will not be returned in this country on a pure working-class vote. It has hitherto confined itself to the direct redistribution of income by spending money on pensions, education, housing and social services at one end and increasing the taxation of wealth at the other end. This is the line of least resistance, but it is the acceptance of capitalism rather than socialism and the limits to which it can be followed

* See *The Spectator*, November 7, 1931.

Great Britain

within a capitalist society are already in sight. Labour will now turn its mind to those problems of fundamental reconstruction which have always been its main objective, but still have to be worked out in practical detail.

Mr. Morrison, too, said much the same thing at South Hackney, and the *Daily Herald* (the Labour daily) noticed his remarks with approval.

The Labour party (he said) must review its policy, which remained fundamentally sound, in the light of modern economic and financial problems. . . . There must be more emphasis upon constructive socialism, which would win to their support the intelligent middle class no less than the intelligent working class. There must be less emphasis upon the cash benefits of Labour politics.*

But there are differences, too, among the reformists. Mr. J. D. H. Cole also considers the old idea of milking the capitalist cow not socialism at all, and, anyhow, played out. He recognises the need for fundamental reconstruction, but he does not wish to see Labour "a national, classless party." Its defeat, indeed, he puts down largely to the fact that it was going in that direction, and he believes that the coming Labour party will be far more extreme than the old one, though "its extremism will be essentially constructive and realistic."† To turn to the victors, however, the Conservative party is overwhelmingly preponderant in the House of Commons, but the bulk of its members must realise that they owe their presence there to their advocacy of a national and not of a party policy. The Prime Minister is the man on whom all eyes are fixed. His personal followers are a mere handful, but for all that he enjoys an exceptionally powerful position, for he is the linchpin of the National Government. His leadership is indispensable if it is to hold together. And there is a formidable rock ahead, on which its unity might split, the question of tariffs and the use to which they should be put, if it is decided that they are necessary to prevent a currency collapse. His will be

* *The Times*, November 2, 1931.

† See *The New Statesman and Nation*, November 14, p. 602.

The General Election

the decisive voice. But the Conservative party know that they would be storing up a defeat as great as their recent victory if it could ever be said that they had used the Prime Minister as a stalking horse, while the Liberals would find it difficult on their side to challenge successfully the impartiality of the man who has so recently had the courage to cut himself free from his old party in order to do what he thinks right for the nation as a whole.

In forming his new Cabinet the Prime Minister has given up the idea of having only ten members. There are now twenty—eleven Conservatives, three Liberals, two National Liberals and four National Labour. The principle of numerical strength has played no part in the selection, and the willingness shown by the Conservatives to content themselves with less than their relative strength might have led them to expect has made a good impression. For the immediate purpose in view the most important departmental posts are naturally those of the Chancellor of the Exchequer and the President of the Board of Trade. They are filled respectively by Mr. Neville Chamberlain and Mr. Runciman.

The victory of the National Government has gone far towards re-establishing foreign confidence, but the nation is by no means out of the wood—the dangers indeed which have to be met are, as is made clear elsewhere in this issue,* as great as ever, and they depend upon world factors, many of which are beyond the control of any single nation. The election has brought a breathing space. It will enable our problems to be considered without haste, but it must also be without rest. The National Government, like its predecessors, will stand or fall by the event.

* See the articles entitled *Great Britain and the Financial Earthquake* and *The World and the Crisis*.

Great Britain

II. THE POUND AND INDUSTRY

ONCE the shock of the historic decision of September 21 had worn off, British industry, or at least British exporting industry, breathed more freely than it had done for six years. It was as if a load had been lifted from the back of every manufacturer north of the Trent. First anxieties naturally concerned the sharp rise in the sterling prices of imported raw materials and the difficulties over the adjustment of contracts in sterling. But these were soon realised to be more than offset by the competitive advantage of the exchange bounty upon British exports which follows the reduction in their gold price. We are still too close to the event to measure the full effects, but writing now, nearly seven weeks after we cut adrift from our gold anchorage, there are many grounds for hope that the expectation of industrial revival will not be disappointed. There are almost as many grounds for uncertainty; a few days or a few weeks may falsify the most cautiously drawn conclusion. The one thing that may count for most is the psychological reaction; the mood of depression and despair has been broken at last.

At the moment, the unemployment figures offer the most striking index of change. Improvement began to be reflected in the returns in the first days of October. Between September 28 (when the total for Great Britain reached the highest figure recorded, 2,824,772) and October 26, there was a fall of nearly 100,000. The decrease was unevenly spread. In the southern divisions—south of a line drawn from the Bristol Channel to the Wash—there was an increase in unemployment, mainly seasonal, of over 40,000. North of that line—in the midland and northern counties, in Wales and Scotland—there was a decrease of about 140,000. The largest fall was in the Midlands, where the number of registered unemployed

The Pound and Industry

dropped by 12 per cent., and in the north-western and north-eastern counties, where the drop was over 6 per cent. The improvement in employment was seen first in the textile trades—cotton, wool, lace, hosiery, linen, jute and silk; the boot and shoe trade; the pottery trades; motor manufacture; and in coal mining. Metals and the heavy industries have responded more slowly. The lighter metal trades moved first; pig iron production increased; but a revival in steel, heavy engineering and shipbuilding is much less in evidence.

By the side of the rosy pictures of industrial revival given in the newspapers, the unemployment returns might not seem too favourable. The lag between the first spurt in confidence and its translation into workshop and factory activity differs much from industry to industry. The increase in employment has affected first the "temporarily stopped"—those on short time or "stood off" for short periods. But as factories and mines that have been closed are slowly brought into production again, the numbers of the "wholly unemployed" are being touched, although not sufficiently as yet to offset entirely the seasonal increases (especially in building trade unemployment, which is above the normal), and whatever effects the economies in expenditure on public works may have. After the middle of November the unemployment figures may be affected by the administrative changes which are reducing the numbers drawing benefit.

The depreciation of sterling gives, of course, a two-fold stimulus to industry, through its operation as a bounty on exports and a check on imports. So far the exporting stimulus appears to have been the more immediate and important, and the advantage will remain so long as the gap between sterling and gold prices continues. Our main competitors in the export of manufactured goods remain on the gold standard, and as a considerable part of our raw materials is drawn from countries which have left gold, there is a strong balance on our side. The tendency to

Great Britain

replace foreign imported manufactures by British in the home market may be slower to operate, as there are stocks to be absorbed, and these may have been increased during the last two months in anticipation of the introduction of a customs tariff. Moreover, it appears that foreign sellers, in a number of cases and for a time, are under such pressure to export that they are prepared to make concessions in price which will cut away some part of the "exchange tariff" advantage to the home manufacturer. As, however, 80 per cent. of our 1929 imports of manufactured goods came from countries still on the gold standard, and as only 50 per cent. of our raw materials proper came from countries now on gold, the ultimate advantage should be on our side, as the value of the finished goods is a good deal more than that of the raw materials used. The obsession of many manufacturers with a tariff for its own sake, and the rather hysterical outcry against all imports as "dumped" have tended to obscure the very real change that has taken place in the position of the home market.

The case of the cotton trade may be taken to illustrate the new situation of the exporting trades. In August it could be said that no more than 50 per cent. of Lancashire's active spindles and 60 per cent. of the active looms were at work; this is to leave out of account entirely the fifth of the machinery of the industry which was entirely shut down. The reaction to the departure from the gold standard was immediate. For the first ten days or so, the increased business was mainly initiated in this country by producers who, having long relied on the weakness of the yarn market, now hastened to cover themselves for the moderate orders that had already been booked forward, and by the home market which feared an early rise in prices. Foreign orders came in briskly in the early days of October. Between September 21 and November 2 there was a drop of 62,000 in cotton trade unemployment in Lancashire, of which 12,000 was among the "wholly unemployed." This represented a decrease in the per-

The Pound and Industry

centage of insured workers unemployed from 41·3 to 29·1. The increase in production was probably less than these figures may suggest, but it received a good deal of public notice because whole districts in Lancashire were suddenly raised from the depths of depression to an activity which they had not known for two years. Other districts, whose types of goods had not yet been called into demand, were for the time little influenced.

As the revival will not be reflected in the Board of Trade returns until November, quantitative estimates are hazardous. The most important demand came from China, where since the war Lancashire's loss of trade to Japan has been catastrophic. Chinese purchasing power has increased with the sharp rise in the price of silver, but currency conditions have had a powerful ally in politics. The anti-Japanese boycott, which followed the Manchurian trouble, diverted to Lancashire Chinese orders for yarns to supply the Chinese mills, and for cloth, and lines of goods have been asked for which Lancashire merchants had long ago given up for lost. Anti-Japanese feeling has also spread to the smaller Far Eastern markets, where Chinese merchants have influence. There is further a normal seasonal increase in business to be taken into account. It is, therefore, not easy to assess the weight that should be given to the monetary factor. But it is clear that in all the markets in which Japan has been a formidable competitor—in China, South Africa, Egypt, Iraq, the Near East, Australia, East Africa, and so on—a definite handicap has been imposed on her trade, a handicap that is felt both in gold standard countries and in those that have followed sterling. In most of these countries Lancashire has experienced an increase of demand.

It would be a rash assumption that sterling depreciation of itself is enough to create an automatic transfer of trade from Japan to Lancashire. It was commonly said a few months ago that Lancashire goods were about 15 per cent. too dear to be competitive. If this could be taken as the

Great Britain

measure in which British costs were too high, it would seem to have been overcome in some branches of trade. It is now calculated that, allowing for the increased cost of cotton in sterling (the price is set by the United States, and cotton in India and Egypt moves in sympathetic relation, although these two countries have followed sterling), Lancashire can sell plain grey cloth of the type Japan has almost monopolised in the East at a reduction of 15 per cent., and the more finished types of goods at even greater reductions. Japan, however, has revealed considerable elasticity in competition, and has cut the prices of her standard goods since September 21. In Australia, even after sterling left gold, and in spite of tariff discrimination, Japan could sell at 7½ per cent. below Lancashire in some lines. Japanese competition has by no means been disposed of; the most that can be said is that the fight has become more equal. The morals which trade missions and trade advisers have drawn from the decay of Lancashire's Eastern connections still need to be pressed home. Moreover, if Japan should be forced off gold, as it is possible she may be, Lancashire's position would be, in relation to her most dangerous competitor, as bad as ever.

Awakening interest is reported from nearly all Lancashire's markets, even in India and South America, which have been so much depressed through the weakness of commodity prices. Many orders can be traced to a transfer from European competitors who remain on gold—from Italy, Switzerland, Czechoslovakia, and Holland, and (in the trade with South America and Canada) to a transfer from the United States. In Europe itself, more orders have been booked, but little is hoped for until general financial conditions improve. All this would be a good deal more encouraging if there were any conviction that the spurt in Lancashire trade is part of a world revival. Some evidence exists of a slight increase in the world production of cotton goods in recent months, but the latest movements appear to be no more than an increase in Lancashire's share at the

The Pound and Industry

expense of other producing countries, many of which are hardly less depressed.

Many of the conditions which apply to the cotton trade revival hold good of the other industries in which unemployment is falling. In the coal industry, for instance, the improvement is not uniform, although production has gone up and quotas have been increased. The departure of the Scandinavian countries from gold has given British exporters a marked advantage over Germany and Poland, but one which those countries are striving hard to counter. In some other European markets the British exporter has to face bounties and licences and import regulations which may whittle away much of his gain. The difficulties of foreign exchange—through the lack of facilities for forward dealings, and the restrictions on exchange transactions which exist in most countries—have also hampered business, and have deterred manufacturers and merchants in many industries from putting forward the effort needed to take up or capture foreign orders.

The cheerful tone of industry has its counterpart in the labour situation. The movements for wage reductions have, for the moment at least, been sidetracked. There has, however, been no movement in the other direction, and the estimates of the London and Cambridge Economic Service suggest that an increase in the cost of living index serious enough to justify higher wages is hardly to be expected.

Optimism runs so strongly that the dangers, external and internal, receive less than their share of attention. At best our hold on prosperity is precarious. A further fall in world gold prices, a nearer approach of sterling to gold parity, the forcing of other countries off gold, or the contraction of the channels of trade by new restrictions would neutralise our advantage. No lasting revival can be looked for while the world depression remains so intense. Even if the credit crisis is miraculously overcome without further catastrophe, the problem of Great Britain's high costs is only

Great Britain

partially solved. Industrial reorganisation and the correction of wage disparities, have become no less vital. The Economy Act and the Anomalies Act will between them go a long way towards removing the features of the unemployment insurance system which have hampered industrial flexibility, but they are not a substitute for the thorough reform that we may look to the Royal Commission to propose. The old individualist Adam, whom depression had bruised but not destroyed, is rising again in the cotton and coal industries and improved demand is being used as an argument for dropping all attempts at a unified policy. The cotton industry may shortly pluck up courage to apply to Parliament for the creation of a statutory body to raise funds and administer them in the purchase or immobilisation of surplus plant. This may put a strain on the new Parliament hardly less severe than that which the question of the continuance of the coal marketing schemes may impose. In some other industries it is much to be feared that preoccupation with the prospects of tariffs may interpose a fresh obstacle to internal reorganisation.

IRELAND : EVENTS IN THE FREE STATE

I. THE FALL OF THE POUND AND THE INTERNAL UNREST

ALMOST alone among their European confrères our politicians spent a quiet and well deserved summer holiday. Amidst the Kerry mountains, in Breton villages, on the wild coast of Connemara and in similar places they have enjoyed such fresh air and sunshine as this terrible summer afforded. But in the end the rumblings of the economic crisis reached Dublin, and the fall of the pound from the gold standard brought them rushing back to duty. The British economy budget had aroused little more than a passive sympathy with our neighbour's plight, and few, save close students of the situation, realised the instability of sterling. A few days before the crash came Mr. J. W. Dulanty, our Commissioner in London, had pointed out that it could only be regarded as unfortunate for British manufacturers' and workers' interests that trade with the Free State was becoming so lopsided, and that British purchases of Irish produce had declined so heavily. It was difficult, he declared, to see how the Free State could continue to maintain its comparatively large purchases in England if the British market became still weaker for Irish commodities. As soon as the financial crisis burst the necessity and chance of redressing this situation became more apparent, and Mr. Cosgrave, in a sensible message to the nation, exhorted the people to buy first

Ireland : Events in the Free State

Irish produce and manufactured goods and afterwards those of Great Britain in preference to those of foreign countries. Under the Currency Act of 1927 our pound is anchored to sterling, and there is therefore no exchange rate between the Free State and Great Britain. There is no country in the world better situated than we are to supply just what the British consumer wants in the way of food, and there must be something wrong somewhere if we are now not able to take a leading place in British markets. Naturally, the Fianna Fail party, apparently oblivious of these facts, have demanded that we should immediately sever our connection with sterling and protect our industries behind a tariff wall, or, if necessary, an absolute embargo. They propose that a central bank should be created in Dublin and that our currency should be made independent. At the same time they attack the Government for not enforcing economy, quite oblivious of the fact that it was largely to deflate the Fianna Fail promise of complete de-rating that the Government were foolish enough to introduce partial de-rating this year, in the teeth of the majority report of the special commission they set up to inquire into the matter. Mr. McEntee, one of the leading Fianna Fail deputies, in a letter to the press, suggests that the cause of England's financial crisis was that France had decisively defeated Great Britain in the struggle for the political and financial control of Europe, and that all through this struggle Mr. Cosgrave's Government, the Anglo-Irish bankers, and the Free State Currency Commission, had been on the side of Great Britain against France. Now that France had won and Britain had lost we must share with Britain the consequences of that loss. Doubtless, if England had backed France in her plans to smash Germany, Mr. McEntee would have been equally shocked and accused Mr. Cosgrave of similar evil designs. The Leader of the Labour party, Mr. J. T. O'Connell, T.D., prophesies that the Free State is facing up to a state of emergency almost as great, if not as imme-

Fall of the Pound and the Internal Unrest

diately apparent, as that which has recently overtaken other countries, but his remedies might be best described as tepid and diluted socialism of a not very practical nature. He would provide useful and remunerative employment for all who are able to work, and use the credit of the country for this purpose. Roads, housing, harbours and waterworks should be constructed with money raised by national loans, and the millions of Irish money invested abroad should be induced to return to the Free State for these purposes. These projects, if pursued seriously, might well land us in a similar position to that of Great Britain, when we tried to balance our next budget. The new National Centre party, which is led by Mr. P. Belton, a former follower of Mr. de Valera, has adopted a policy which includes the establishment of a central bank in the Free State, with a gold reserve and control of national credit, currency and banking; the financing of national housing by the central bank; securing the home market for Irish products, both agricultural and industrial; the complete de-rating of all agricultural land; the drastic reduction of all legal charges, and the codification and simplification of the law. This new party maintains that the interests of the agricultural community and of the country as a whole would best be served by maintaining a party in the Dail independent of all other parties, which would act in all matters political and economic on the directions of the party executive. In short, it represents a purely selfish agricultural policy of the narrowest kind, but, as neither Mr. Belton nor his followers represent any considerable section of the community, it need not be taken too seriously.

It would be idle to suggest that Great Britain's failure to maintain the gold standard has not shaken our confidence in England's financial position and prestige, and were the pound allowed to slide further towards the bottomless pit of inflation there can be little doubt that there would be an irresistible demand for the creation of

Ireland : Events in the Free State

an independent currency in the Free State. That will not take place as long as the reasonable stability of sterling is assured, and the action of Denmark in deserting the gold standard in order to maintain its British trade has helped us to realise the fact that our trade with England, which is our principal market, could not be maintained if we deserted the pound. One strange result of the suspension of the gold standard in Great Britain was that, for the first time in recent years, the Irish bank rate did not, for several weeks, follow the Bank of England rate, but remained at $4\frac{1}{2}$ per cent. Finally, the pressure of the English banks, exerted selfishly through the Belfast Bank (a mere satellite of the English Midland Bank), compelled the Irish banks to follow suit—perhaps not altogether unwillingly. For the first time some strong comments have been heard in Belfast business quarters on the methods of English finance.

But the question of our external financial policy is entirely overshadowed for the moment by a domestic issue of even more vital importance.* For the last few months there has been an alarming increase of political crime, obviously directed and inspired by the extreme wing of the republican movement. On July 19 a young farm labourer named John Ryan, who had given evidence in a recent prosecution for illegal drilling, was taken from his home at Cappawhite, County Tipperary, at midnight by armed men and was found shot dead next morning on the roadside with a label bearing the inscription : "Spies and informers beware. I.R.A." On August 12 the town of Cootehill, County Cavan, on the border of Northern Ireland, where an Orange meeting was to be held, was invaded by large bodies of men armed with sticks, a railway bridge leading to the town was blown up, trees were thrown across the roads and trenches dug, so that it was impossible to enter the town, and the platform at

* See THE ROUND TABLE, No. 84, September, 1931, p. 852 *et seq.*, and No. 83, June, 1931, pp. 626 and 627.

Fall of the Pound and the Internal Unrest

the place fixed for the Orange meeting was destroyed. Strong forces of military and Civic Guards were drafted into the town immediately to preserve order, and a number of young men were arrested for having issued military orders in the public streets. The Orange meeting was not held, and a serious disturbance of the public peace was only narrowly averted. This occurrence had, of course, the natural repercussion of anti-Catholic riots in Northern Ireland. That the so-called Irish Republican Army was responsible for this demonstration is proved by a document issued to the press by its Army Council, dated August 22, in which it was definitely stated that "an imperialist meeting at Cootehill on August 12 was suppressed by order of the Cavan Brigade I.R.A." This communiqué further asserted that the enemies of Irish freedom are to be found equally within the Catholic and Protestant communities, and their rôle is to keep the masses of the Irish people divided by sharpening religious antagonisms. It was vital, therefore, that any attempt to raise sectarian strife should be vigorously suppressed. How any one, outside a lunatic asylum, could hope to avoid raising sectarian strife by suppressing an Orange meeting in the North of Ireland it is difficult to imagine; but such is the mentality responsible for the direction of the extremist movement in Ireland. The net result was that between sixty and seventy persons were injured in Armagh, Portadown, Lisburn and Belfast, whilst damage to Catholic property amounted to about £4,000. Other incidents which have lately taken place include the destruction by armed men of a hut erected by some boy scouts in the County Louth, the wounding of two men by nocturnal assailants in the County Clare, and a determined attempt to shoot the State Solicitor in the same county. How far these occurrences are the work of one organisation it is difficult to say, but it is abundantly clear that a determined attempt is being made by armed terrorism to overthrow established authority.

Ireland : Events in the Free State

No executive in a civilised country could tolerate such a menace and continue to exist, and immediately the Dail reassembled, on October 14, the Government introduced a Bill to deal drastically with the organisers of these disturbances. Prior to its introduction the Government members of the Dail and Senate were visited in their houses by members of the extremist organisation, who sought from them an expression of their attitude towards the Government's proposals—although these had not then been made public. These members have since been under police protection. The usual agitation amongst local bodies was also carried on, and an attempt made to secure their condemnation of the proposed legislation in advance. This was only partially successful. The Act, which is entitled the Constitution (Amendment) Act, was passed through both houses of the Oireachtas under a stringent closure motion in four days, and, as its title implies, encroaches upon the provisions of the Free State Constitution, in which careful provision was made for the liberty of the person, free expression of opinion, and trial by strict processes of law. It creates a new article of the Constitution, to be known as Article 2 (a). This article establishes a tribunal composed of five military members for dealing with political crime. This tribunal wields powers such as no judicial authority has ever exercised before in Ireland. It will control all the functions of justice within its sphere, including the death penalty, and there will be no appeal from its decisions, although the Executive Council may pardon convicted persons and remit the punishment imposed. Offences may be brought before the tribunal on the certificate of an executive minister, and its jurisdiction includes political cases now awaiting trial before the civil courts. Furthermore, the police are armed with new and exceedingly drastic powers for the suppression of unlawful associations and newspapers, and for the arrest of suspects. An order of the Executive Council declaring that, in its opinion, any association is unlawful is decreed to be conclusive

Fall of the Pound and the Internal Unrest

evidence that such association is an unlawful association, and the special tribunal is given power to close buildings which are being used for certain unlawful purposes. A remarkable section of the Act has been drawn up to meet the case of the possible kidnapping, wounding, or death of a deputy or senator through the unlawful act of any other person. In the event of such act preventing any member of either house of the Oireachtas from taking part in its proceedings, the Governor-General may, on the advice of the Executive Council, appoint a substitute and (or) adjourn either or both houses of the Oireachtas. There can only be one justification for such a measure, and it was made clear by Mr. Cosgrave in proposing the closure motion, namely, that if the State does not kill the existing lawlessness it will kill the State. In support of this contention he was able to point to the long list of recent crimes and incidents already referred to, and to the public statements of their organisers, the cumulative effect of which conclusively proves that there is a far-flung armed conspiracy to upset the Free State. This conspiracy has, as he pointed out, successfully paralysed the whole machinery of trial by jury and the work of the police in dealing with political crime. It is notorious—and indeed Mr. Cosgrave admitted it—that the ordinary civil judges have refused to deal with political crime, and therefore a military tribunal is necessary.

It is unfortunately only too true that the present practice of political murder and terrorism in the Free State is an evil inheritance from the methods employed by the Sinn Féin leaders during their struggle with England, and in this respect our present Government is only reaping what it has sown, nor are Mr. de Valera and his friends in any better plight. Every argument that was used to justify the attack on established authority by the gun under British rule is being used now, with just as little moral right, to justify the overthrow of the present Government. Those who preached, before 1921, the doctrine of "killing no murder" where the ends were political—and they were, unfortunately,

Ireland: Events in the Free State

often those responsible for the moral leadership of the people—are directly responsible for the present condition of the Free State, and the end of the bloodshed is not yet. One doubts if it can ever end until, as a nation, we definitely admit that such a doctrine never was and never can be right. Such an act of national psycho-analysis might rid us for ever of the assassin. The vital question of the hour is, however, whether the people of the Free State will now, once and for all, decisively repudiate such methods, which can never lead to anything but anarchy and ruin. As Mr. Cosgrave pointed out, the test of the capacity of a people to maintain a stable State in existence lies in its determination to defeat these evils. We are now, as he said, being put to that test, and on the firmness of our action here and now depends the whole life of our State, as well as our good name before the other civilised peoples of the world. There is every reason to believe that our people, who are fundamentally moral and conservative, will rise to the occasion. It is remarkable that, in spite of intimidation, the Government and Independent members voted solidly for the Bill, and that two prominent members of the Labour party, Mr. D. Morrissey, T.D., Deputy Speaker of the Dail, and Mr. R. S. Anthony, T.D., one of the members for Cork, joined them in spite of the decision of their own party to vote against it. Fianna Fail has made no real attempt to controvert the catalogue of crime and intimidation presented by Mr. Cosgrave. It has justified itself by asking the Government to resign, and by insinuating that if the oath of allegiance were eliminated from the Constitution, all would be for the best in the best of all possible worlds. During the debate in the Dail Mr. de Valera, it is true, made for the first time the, for him, remarkable declaration that there is no authority outside the Dail to take human life, and that "if there is no authority in this House there is no authority anywhere in the country to rule," but he was careful almost to destroy this statement by suggesting that the present Government were only the successors

Fall of the Pound and the Internal Unrest
of the British Government, and that the ordinary law was sufficient to deal with the crimes mentioned by Mr. Cosgrave, although it has not been found possible under existing conditions to bring anybody to justice in respect of them. The debate, with the exception of Mr. Cosgrave's opening speech, did not reach a high level, and was chiefly remarkable for the repetition of the usual stale taunts as to what various celebrities did or did not do during the Anglo-Irish struggle. It is obvious that the Catholic Church is at last thoroughly alarmed as to the situation, and the Most Reverend Dr. Fogarty, Bishop of Killaloe, has not hesitated to declare that there was a group in this country which had adopted the methods and principles of Soviet Russia and was preparing the ground by murder, intimidation and propaganda. This, he declared, was the peril Ireland was now faced with, and a bigger peril, in his opinion, she never before had to deal with. The Catholic hierarchy, in a pastoral letter, read in all the churches on Sunday, October 18, have definitely declared the extremist military organisation to be immoral and one to which no Catholic can belong. They point out that the Free State has a democratic government and that no one has a right to seek to overthrow that government by force of arms, and that this holds good, not only of the present government, but of any government which may follow, as long as it secures the support of a majority of the people by constitutional means. The only criticism which can be passed upon this clear and accurate statement of Catholic doctrine is that it might have been written and promulgated with equal truth fifteen years ago, and that, if it had been, there would have been no necessity to do it now. Let us hope that it is not too late.

The pastoral also condemns the new political organisation called Saor Eire (Free Ireland) on the grounds that it is communistic in origin and principle. This organisation, which has been started by the ultra-extremists in order to counteract the Government's new move and also

Ireland : Events in the Free State

to prevent Mr. de Valera's party from stealing their clothes, held its first congress in Dublin on September 26 and 27. Its objects, as stated in its constitution, are to organise and consolidate the Republic of Ireland on the basis of the possession and administration by the workers and working farmers of the land, instruments of production, distribution and exchange, and to restore and foster the Irish language and culture. The means by which these objects could be achieved were by organising committees of action amongst the industrial and agricultural workers to lead the working class and working farmers in their day-to-day struggle, and to mobilise the mass of the Irish people behind a revolutionary government for the overthrow of British imperialism in Ireland, and the organisation of a workers' and working farmers' republic. It will be observed that this programme has a distinctly Russian flavour, and this has been resented by Miss Mary MacSwiney, who, although the most orthodox of extreme republicans, has, to her credit, refused to embark on a class war to attain her objective. In a recent communication to *An Poblacht*, the extremist weekly, she asks that some more exact definition of the term "workers" shall be given, and one that does not exclude any portion of the Irish people. It may be expected that the young gentlemen responsible for this bombastic document will not comply with her wishes, and that Miss MacSwiney, who is essentially religious, will not give her support to any movement officially condemned by the Church. The mysterious republican Dail, which is in effect Miss MacSwiney's private parliament, has issued a pronouncement in which it states that it deprecates any attempt to create class distinctions, or promote class warfare, and warns loyal republicans to be on their guard against any attempt to entice them away, or force them to surrender their allegiance. It is only too obvious that this body, which is composed in part of amiable and ancient doctrinaire revolutionaries like Professor Stockley, has ceased to have

Fall of the Pound and the Internal Unrest
any effective control over the younger and more advanced extremists, and that it will soon be completely eliminated.

In a lively analysis of existing parties, the organ of Saor Eire describes the Cumann na nGaedheal as the mouth-piece of the Bank of Ireland groupings. It set out to use the Treaty as a "stepping stone," but the opposition developing into civil war pushed the party inevitably to the right until it has become exclusively the party of the big landowners, commercial, industrial and financial interests. Nor is it kinder to Mr. de Valera, whose party, Fianna Fail, it depicts as that of the Irish middle class who feel that the imperialists have hogged the good things the Treaty should have yielded them. The Labour party is contemptuously dismissed as a mere group of adventurers living under the shadow of the Government party, who have failed both the unemployed and the workers.

Acting promptly under the powers conferred by the new Act, the Government has constituted the military tribunal it provides for and has declared twelve associations, half of which are described as communistic, to be illegal. The proclaimed associations include, of course, the Irish Republican Army and Saor Eire. The others are mainly satellites of these two bodies. Sad to relate, they do not include Miss MacSwiney's organisation, Sinn Fein, or her personal Dail. This is the unkindest act of all. The prisoners awaiting trial will now be tried by the military tribunal, and until the results of these trials are made public no substantial developments are probable. It is unlikely that the Government will take any drastic action unless further crimes occur. The ringleaders of the Republican Army have fled the country.

Another problem, of a legal nature, which has necessitated immediate legislation, has arisen concerning the jurisdiction of the Circuit Court. This court was set up by the Courts of Justice Act, 1924, with a jurisdiction of £300, as compared with a jurisdiction of £50 enjoyed by the County Court which it replaced. The Bar of Ireland

Ireland : Events in the Free State ;

strongly objects to this increased jurisdiction, because it has reduced expensive litigation in Dublin to a minimum and decentralised the administration of justice—a step which was absolutely necessary in a relatively poor agricultural country like the Free State—and certain members of the Oireachtas have succeeded in preventing the enactment of rules for this new court, although these rules have been prepared, revised and presented to the Oireachtas on four occasions during the last seven years. Through this deliberate obstruction the Government was forced last year to set up a parliamentary committee to inquire into the whole working of the Courts of Justice Act, and this committee, although composed of carefully selected members friendly to the views of the Bar, was forced by public opinion and results to report that the Circuit Court jurisdiction should not be altered. Matters have now been brought to a head by a decision of the Supreme Court* that, owing to the absence of legal rules, the Circuit Court costs cannot exceed the very low scale fixed in the former County Court. This decision, by reducing barristers' fees to a minimum, has naturally brought the Bar to its senses, and the Bill which the Minister for Justice has introduced, and which will regularise the present situation, is not likely to encounter serious opposition. Seldom has there been a better example of how a powerful profession dealing with a technical matter can nullify legislation, and seldom has such a body been more completely and properly hoist with its own petard.

Amidst all these "excursions and alarums" Mr. de Valera's new daily paper, *The Irish Press*, made its appearance on September 5. It takes as its mottoes the Irish text of the Four Masters : "For the Glory of God and the Honour of Ireland," and the English slogan : "The Truth in the News." In make up it is a cross between the *Daily Express* and a parish magazine. Its sporting news is given the usual abnormal space common to most

* Quinn and another v. Stokes and another, July, 1931.

The Trade Balance and Other Matters

modern papers. Its leading articles are moderate in tone and reasonable in argument. So far it has not descended to the baser personalities of Irish low-class journalism, and it claims that it will not mislead its friends nor misrepresent its opponents. Its advertisements indicate that its present revenue must be about one-tenth of that necessary to make it a commercial success, but this of course may rectify itself in time if its circulation increases. In any event, it may be predicted that it will at least last till after the general election, which is probably imminent.

Irish journalism, in its widest sense, has suffered a grievous loss through the death of Senator P. J. Hooper, Vice-Chairman of the Senate. He was for many years associated with the leading Irish Nationalist paper, *The Freeman's Journal*, which has now ceased to exist, of which he was successively London correspondent and afterwards editor during a very difficult period. In recent years he has acted as Irish correspondent for foreign newspapers, and was also engaged in writing a life of the late Nationalist leader, John Dillon. He was a brother of the late Mr. John Hooper, our brilliant Director of Statistics, who died last winter.* Gifted with a wide knowledge of affairs, a generous mind, and a well-balanced judgment, Senator Hooper's death leaves a serious gap in our national and political life, and he is mourned by a host of friends.

II. THE TRADE BALANCE AND OTHER MATTERS

THE Free State trade returns for the year ended June 30, 1931, show that the volume of trade during that period was the lowest since 1924. The total trade was £93,285,096 compared with £109,669,697 for the year ended June 1930—a decrease of £16,384,601, and the adverse trade balance, as compared with the same year, has increased by £689,921. The detailed figures show that the

* See THE ROUND TABLE, No. 82, March, 1931, p. 414.

Ireland : Events in the Free State

export of butter has fallen, and that there is a reduction of 45,230 in the number of cattle exported, representing a drop of £900,000 in value. More pigs and horses have been exported, but fewer sheep. Strange to say, the quantity of potatoes exported was five and a half times that of last year, and the gross value of this trade increased nearly fifteen times. The practically complete cessation of work in the Ford factory at Cork is accountable for £1,700,000 of the decline in exports during the half-year ended June 1931, so that the decline in the prices for agricultural produce cannot altogether account for more than £2,800,000 out of the total decline of 4½ millions in the same period, and, bad as the farmers' position may be, the lower prices for imported foodstuffs nearly compensates for this. But the trade returns do not tell the whole story. The revenue returns for the first half of the financial year show that receipts amounted to £10,916,000, as compared with £11,188,148 for the first six months of the 1930-31 period. This reduction of £272,000 for the half-year would be of little consequence were it not for the fact that a special duty on petrol and an extra duty on sugar were imposed in the last budget in order to meet the increased grant allocated for the relief of rates on agricultural land. The figures given show that the extra amount required has not been produced by the fresh taxation, and unless the second half of the year, which is generally better, shows a substantial improvement, there will probably be a deficit on the whole year, equivalent to the relief granted to the farmers. These facts suggest the necessity for stringent public economy, and probably increased taxation.

An interesting sidelight on the social habits of our agricultural population is afforded by the publication of an analysis of the conjugal conditions of our population in relation to occupations, derived from the recent census. It discloses that between the ages of twenty-five and thirty-five only 5 per cent. of farmers' sons are married, whereas 24 per cent. of agricultural labourers and 55 per cent. of

The Trade Balance and Other Matters

builders' labourers between the same ages are married. In England the number of farmers' sons of the same ages who are married is about double. This pernicious practice is indeed the Irish farmers' method of birth control, and it is not uncommon to find men of from forty to fifty years of age still single because of the economic impossibility of setting up households of their own until they inherit the farm on their parents' death. Occasionally the old people assign over the farm when the son marries, but only if the prospective bride can pay a sum large enough to satisfy the family. These conditions increase the necessity for developing rural industries to absorb these farmers' sons and enable them to marry at an age at which they can rear healthy children under natural conditions. Emigration has in the past supplied an outlet for many of these young men, but this door is now practically closed.

Two important problems, both concerning the use of our roads, will have to be discussed by the Oireachtas during its present session. The first concerns traffic regulation, and a Bill dealing with this aspect of the matter was introduced in the Dail last July. It follows in many respects the new English Act. It provides for driving tests for the drivers of public vehicles, and compulsory third party insurance for all drivers. As regards speed, the Bill prescribes certain speed limits for heavy vehicles, including omnibuses, but imposes no speed limit on the private car; it lays down, however, that a speed of more than thirty miles an hour shall be *prima facie* evidence in a charge of dangerous driving. Driving a motor car whilst drunk is at last made an offence punishable with severe penalties, including imprisonment up to six months in the case of a second offence.

The next problem arising out of the situation, namely, the paralysis of our railways through the increasing bus competition, is not so easy to solve.* It is known that it has been engaging the attention of the Ministry of Industry

* See THE ROUND TABLE, No. 83, June, 1931, p. 631.

Ireland : Events in the Free State

and Commerce for a considerable time, and legislation is now believed to be imminent. An official communication states that the primary object of this legislation is not necessarily to preserve railways or to keep branch lines open, but to secure for the travelling and trading public the cheapest and most efficient services which, between them, the existing systems of transport can provide and continue to maintain. Thus it is not proposed to require railway lines to be kept open if adequate facilities at a lower cost can be afforded otherwise, nor is it intended that excessive road competition should continue in such a way as to waste the resources available for providing transport, and so ultimately to raise its cost. The principle enforced will be that transport exists for the purposes of trade rather than trade for the purposes of the parties concerned in transport, and the goal aimed at is to bring about a more economic distribution of traffic over road and rail, based on the capacity of each system to provide the services that present conditions necessitate, at a cost which the traffic can bear. As the policy embodied in these proposals will probably involve the closing of a large number of the superfluous branch railways (which number about forty), it can be imagined that it will be strenuously resisted by the Labour representatives. The Labour party has in fact already presented to the Government a closely reasoned and constructive memorandum, demanding the nationalisation of the railways.

Another serious question which has recently been much discussed, and which also needs legislation on a large and drastic scale, is that of urban housing.* The Civics Institute of Ireland, in a recent important memorandum on this question, states that, in order to make an adequate attack on the slum problem, in Dublin alone provision should be made for the proper accommodation of about 18,000 families in the next ten years. They agree with Burke's dictum to the effect that human beings are not

* See THE ROUND TABLE, No. 77, December, 1929, p. 136 *et seq.*

The Trade Balance and Other Matters

lay figures to be arranged and rearranged at will, but as to be dealt with as persons of pronounced habits and definite tendencies, and they consider that this must be borne in mind in connection with the matter of housing. At the same time, however, they claim that in the public interest there must be a general improvement effected of such a kind, and to such an extent, that environment will be a help—instead of, as at present, a hindrance—to a better standard of life. The Institute admits that the large amount contemplated for the provision of houses both in Dublin and throughout the country, is a very serious matter, and suggests that the major portion of the cost would best be met by long-term loans, but that a substantial sum might be obtained from the public by the flotation at the same time of a short-term housing loan at a low rate of interest if this is done whilst the necessity for action is obvious. It is understood that the Dublin Corporation proposes to seek powers to borrow a million pounds in the near future in order to make a substantial attack on this social cancer.

A strange development has taken place in connection with the Government's policy of encouraging the use of the Irish language. A number of places were deliberately reserved in some of the public examinations, including the preparatory training colleges for teachers, for those who got 75 per cent. qualification in oral Irish, in order to encourage candidates from the Ghaedhltacht, or Irish-speaking districts, but it has been found difficult—even with such inducements—to get the necessary number of applicants from these districts. It is now proposed to take a number of pupils each year from Irish-speaking families and to send them to suitable secondary schools for the purpose of giving them a free education and afterwards using them as teachers of technical subjects like domestic economy. It remains to be seen whether such spoon feeding is likely to be successful; it certainly cannot stay the rapid decay of the language, which is due to economic reasons beyond

Ireland : Events in the Free State

the control of any Government. The sad fact remains that the Irish language has now virtually ceased to be a language and has become an industry. Irish culture of a more vital kind will receive considerable advertisement from the tour which the Abbey Theatre Company is at the moment making in America. It may indeed almost claim to be the parent of the many small theatres which have done so much to promote and encourage native dramatic art in America, and although its actors speak English—or, shall we say, Anglo-Irish—it is one of the most distinctive and national of our public institutions.

Irish art has unfortunately suffered a vital blow through the death of Sir William Orpen, its greatest figure. He has been so long associated with English artistic life that it may perhaps be forgotten that he was really a typical Dublin man, that his earliest artistic training was received there, and that at considerable sacrifice he returned to teach in Dublin during quite recent years. He was essentially Irish, both in his outlook on life and in the development of his art. It is tragic that he should have died in the full maturity of his genius when, perhaps, his greatest work was yet to come.

The Irish Free State.

November 1931.

CANADA

I. THE MARITIME PROVINCES

SIX years ago the maritime provinces formed one of the political storm centres of Canada. Prolonged economic depression had given rise to a movement for maritime rights which, though its objects were often obscurely thought of and incoherently expressed, nevertheless embodied the deep discontent of the people. Some, more daring than the rest, said that the only maritime right worth talking about was the right to independence. The cautious majority contented itself with vociferous explanations of the ways in which the maritime provinces had been injured or neglected by the rest of Canada, together with demands, more or less specific, for redress, the dreadful alternative of secession being held as a bogey in the background. In those days it was popular to speak disrespectfully of the rest of Canada, and especially of the central provinces of Ontario and Quebec. It would seem that their outstanding characteristic was avarice, but scarcely any adjective was then too condemnatory to apply.

To-day all this has changed. The people of the maritimes, if not satisfied, are at least silent. The clamour that once threatened to produce a new and independent political group has died away into the murmur of party bickering. Observers may witness here the end of a political movement. Within the short space of a few years one can follow its rise, triumph and decline and see in miniature

Canada

the course followed by many more important agitations. What is the reason for the change ?

The maritime rights movement was the outcome of adversity ; it was brought to an end by prosperity. The swelling tide of business activity in the United States and Canada in the years following 1925 gradually had its effect on conditions in the maritimes. Trade through maritime province ports, especially Halifax and St. John, grew in volume ; the coal and steel industry was reorganised under the most favourable auspices after being torn for years by internal dissension aggravated by political machinations ; a large plant for the manufacture of paper was established at Liverpool in Nova Scotia ; and with the return of a measure of confidence in the future, building construction—and reconstruction—was stimulated to contribute its quota to the general activity.

In so far as the improvement in maritime conditions was due to this cause, no individual or political party deserves the credit. But it was not entirely due to this. Political activity, usually so ineffective, played its part here. Indeed, the handling of the maritime problem affords, on a small scale, quite an instructive example of the way in which wise statesmanship can help to charm the serpent of disaffection. (Events like these help one to understand why natives of these provinces have acquired a reputation for political astuteness.)

The contribution of politics to the amelioration of conditions in the maritimes has come partly from provincial and partly from federal sources. In 1924, in Nova Scotia, the Conservative party was returned to power by an overwhelming majority and replaced a Liberal Government which had administered the affairs of the province for some forty years. It is true that by no means all the abuses that enthusiastic Conservatives expected, and even hoped, to discover proved to exist. Nevertheless, the event shows the advantage of a fresh outlook and fresh energies. The administration of the finances of the province was re-

The Maritime Provinces

organised and improved, following a thorough-going audit. A Royal Commission investigated the coal industry and made incisive recommendations, partly as a result of which comparative peace was restored between management and men. The distribution of governmental work among the various departments was altered for the better and a new department was created, charged explicitly with the duty of fostering the economic development of the province. The educational system, under the direction of a new Superintendent of Education, was much improved, thanks to the larger sums of money appropriated to this use. But, what probably seemed of most importance to the public, and was perhaps the outstanding achievement of the Government, was its success in securing assistance for the province from the Federal Government.

This is where the contribution of Ottawa to the solution of the maritime rights problem appears. Forced by the exigencies of politics to take cognisance of the movement, the Federal Government dealt with it by the familiar method of a Royal Commission. The governments of the provinces submitted their claims to it and the Commission speedily reported. Considerably to the embarrassment of the Federal Government, but to the jubilation of the maritimes, the report gave wide recognition to the provincial claims. Large increases in the Dominion subsidies to the provinces, and a reduction of 20 per cent. in freight rates within the maritimes, stood out among minor recommendations. Could these sweeping proposals be acted upon? Strong opposition was encountered and their fate was for some time uncertain; but in the end they were substantially carried out.

What does the future hold? In so far as the improvement is due to better provincial government one may dare to hope it will be permanent. There seems to be a little more independent thinking—and voting—than formerly. But this belief must be held cautiously and prayerfully, for the forces of degeneration in these matters are, like gravi-

Canada

tation, the persistent ones, and to move upward is to struggle.

The permanence of the federal contribution must be judged still more uncertain. Here it is not a question of the quality of the administration but the generosity of the financial—and equivalent—assistance. How long will this last? The thought recurs that the interests of the various sections of Canada collide at many points and the Government is therefore surrounded by a fierce struggle of conflicting interests in which the strongest must generally win out. When prosperity sheds its softening influence over public affairs the bitterness of the struggle is modified, and some satisfaction can be given, from an overflowing Treasury, to all parties. That was the happy situation in 1927, when the recommendations of the Duncan Commission came to be considered. But things are different now. The world depression, a feature of which is the desperate condition of the market for Canada's principal product, has had its withering effect upon public as well as private finance, and rich surplus has changed to gaping deficit. No one knows how long the lean years will last, but it seems that the process of readjustment will be longer and harder than most people would have believed possible two years ago. In circumstances like these, concessions having financial effects are not so readily granted, and bargaining in general is closer. If this, or indeed anything else, robs the maritimes of their present comparative prosperity the memory will not fail to be revived of how profitable, to its sponsors, from the standpoint both of economics and politics, was the maritime rights movement.

The Beauharnois Investigation

II. THE BEAUHARNOIS INVESTIGATION

THE outstanding event of the last session of Parliament was undoubtedly the investigation by a committee of the House of the Beauharnois power project and, of the relations of the Beauharnois Power Corporation with the two political parties, particularly with the Liberal Administration of Mr. Mackenzie King which was responsible for approving of the plans of the corporation.

The Beauharnois (or Soulanges) section of the River St. Lawrence is one of the three important stretches between Lake Ontario and Montreal which are obstructed by rapids. It therefore has a vital place in the project for the building of a deep channel and the production of hydro-electric power which has now been before the people of Canada and the United States for over a decade.* These rapids lie in a stretch of the river some 14 miles in length between two broader portions of the stream named Lake St. Francis and Lake St. Louis. The section lies wholly within the bounds of Canada, and also within the province of Quebec. Between the two lakes there is a fall of 83 ft., making possible a total production of almost two million horse power of electrical energy, or about two-fifths of the total possible production from the river. Probably one-third of Canada's entire population is concentrated within the area available for a market, Toronto being within easy reach of transmission to the west, and Montreal only some 25 miles to the east. With deep water navigation to the ocean and cheap power, the immediate vicinity may become one of the world's richest industrial areas.

As early as 1926 Mr. R. O. Sweezy, a civil engineer of Montreal, became actively interested in the Beauharnois site, and planned, as he stated in a letter, to enlist with our syndicate two or three individuals, who in addition to providing some cash as their fair share, can assist us in getting

* See THE ROUND TABLE, No. 72, September 1928, p. 832, and No. 81, December 1930, p. 172.

Canada

our rights extended or enlarged so as to develop the entire available flow of the St. Lawrence at this point. As the whole situation is entirely within the province of Quebec, our influence has to be exerted only in Canadian political circles—that is, at Ottawa and Quebec.

After purchasing certain rights to the diversion of water which dated back to the days of French rule, Mr. Sweezey and his associates pressed their case at Quebec, and in April, 1928, obtained from the provincial government permission to divert a maximum of 40,000 cubic feet per second for a period of 75 years at an annual rental of \$50,000 plus \$1.00 per h.p. on the understanding that the company would develop a capacity of 500,000 h.p. within ten years and that authorisation would be obtained from the Federal Government "in so far as its rights are concerned." The right was also given to expropriate land for building a canal.

The company then hastened to push the offensive on the Ottawa front. Application was first made for the right to divert ultimately the entire flow of the River St. Lawrence, the company proposing that it would spend up to \$18,000,000 in completing the canal for navigation with locks and other necessary works. In the face of powerful protests, however, the company at a hearing arranged by Government on January 15, 1929, amended its application to a request for 40,000 cubic feet per second. The canal was to be built suitable for shipping, with a minimum depth of 27 feet, and was to be freely available for navigation at any time that the Dominion Government completed the locks, the land for such works being supplied by the company. On March 8, 1929, an order-in-council* gave the Dominion Government's consent to the proposal.†

* P.C. 422.

† Later in the year permission was given the company to take over the right to divert another 13,000 c.f.s. previously granted to the Montreal Cotton Company. In 1931 the Quebec government gave its permission to divert still another 30,000 c.f.s., but this has not yet been passed on at Ottawa.

The Beauharnois Investigation

Twenty-eight conditions were imposed, among them being the following :

(II) The Company shall not commence the construction of the works until detailed plans of construction and all necessary information respecting the said works have been submitted to and approved by the Minister, provided that such plans and information shall be submitted within one year.

Plans were submitted by the company on July 29, 1929. These were not approved then or later; nevertheless, the company commenced construction on its expropriated property on August 7.

On May 22, 1930, Mr. Gardiner, the Progressive leader in the House of Commons, delivered a powerful attack on the legality of the order-in-council and the financial manipulations of the company. Mr. Bennett, then Leader of the Opposition, evidently struck by the exposure, declared that power should be developed

under terms and conditions that enable such power to be available to the Canadian people on the cheapest possible terms. These resources are held by us from Providence in trust, not for the few but for all; they are held in trust for the Canadian people and not for the few . . . When I contemplate what those figures meant this afternoon, my feeling of resentment gets the better of me.

Mr. Bennett, however, asked Mr. T. L. Church, a Conservative member from Toronto, and a staunch upholder of public ownership, to drop his proposal for the annulment of the company's rights, and nothing came of Mr. Gardiner's protest. The general election followed, and the new Government under Mr. Bennett, faced with the staggering difficulties of unemployment and business depression, left the Beauharnois problem alone.

There the matter would probably have rested had not the Progressive and Labour groups in the House of Commons returned to the attack on May 19 last. Obtaining permission from the House to discuss "a definite matter of urgent public importance," they launched a sweeping

Canada

indictment of the whole Beauharnois development upon the following lines: that the order-in-council was illegal because the Dominion Government "had no authority under the Navigable Waters Act to grant the right to divert and use this water for power development, and the whole Beauharnois development is without real legal foundation and contrary to the laws and treaty obligations of Canada"; that the company had prepared plans providing for the diversion of the whole flow of the river; that it had sold bonds on the representation that it would eventually get the whole flow; that its plans of construction had not been agreed to by Government as required in the order-in-council, in spite of which a canal big enough to take the whole flow was being constructed; and that "under this development, unfortunately, a gigantic alienation of the natural resources of this country to private interests for exploitation is taking place under the monstrous financial scheme that was fully disclosed to the House last year." Mr. Gardiner, of the Progressive group, declared that

the gigantic control, on the part of small groups of financiers, of these immensely valuable resources upon which, as the Prime Minister said last year, the life, the welfare, the happiness and well-being of millions of people in the future depend . . . is a matter of the gravest concern to the people of this Dominion. And any alienation of these resources to private interests by order-in-council must be investigated . . . In my opinion, the time is coming when, if necessary, amendments to the British North America Acts must be secured in order to give this Government authority to preserve the rights of the consuming public.

The immediate result of the debate was the appointment of a committee of the House for a special investigation. Premier Bennett admitted that the canal under construction was much larger than necessary for the diversion of 40,000 c.f.s., and that no plans of construction had been approved, but he offered no comment on the demand for annulment of the charter, and expressed the view that those who had invested in good faith must be

The Beauharnois Investigation

protected. The committee sat from June 13 to July 22, and for over a month provided headlines for the newspapers from the Atlantic to the Pacific. It examined thirty-five witnesses, and its printed proceedings and report fill almost a thousand pages. It did not by any means investigate every aspect of the problem, but on certain points its revelations were sensational. Its finding may be briefly summarised. The charge was confirmed that the work of construction was proceeding according to plans which had not received approval, and that in fact the work was not in accordance with the plans that the company had submitted. It was found that the breaching of the Hungry Bay dyke necessary for the diversion had been carried through without governmental authority, and that the plans of remedial works for the protection of navigation had not been worked out. The opinion was expressed, however, that the general scheme of the work was not inimical to the interests of navigation, and should be carried through. The committee recommended,

That the Parliament of Canada take such action as may be within its power, and without prejudicing the rights of the Province of Quebec, to procure the development of this project in such a manner as will best serve the people of Canada.

That should the rights of the Dominion and the Province of Quebec come in conflict, every effort be put forth to arrive at a satisfactory agreement, so that the project may not be imperilled by delay.

That definite action be taken to preserve the rights of navigation and the complete jurisdiction of Parliament in respect thereto.

Much, but by no means the entire story, was laid bare with regard to the financial history of the company and the very great profits already realised by the promoters. The general result was summarised as follows :—

As the situation now stands, the promoters of the Beauharnois project, involving the exploitation of a great natural resource, have been able to secure to themselves a return of all moneys advanced

Canada

by them or any of them, a profit of \$2,189,000 in cash and 1,000,000 class A common shares, which, if saleable at the market quotation of \$4 per share, would be worth \$4,000,000. This cash profit was paid out of moneys borrowed by the Beauharnois Power Corporation, Ltd., by the sale of its bonds.

To complete the project up to the point where 500,000 h.p. will be produced, they will require a further sale of bonds in a capital amount of \$46,000,000. If this were accomplished, the power project would have been constructed completely on borrowed money, and the promoters would be in control of this vast enterprise owning 1,620,000 of the class A shares out of a total issue of 1,799,995, and also the five management preferred shares, which for ten years give to the underwriters practical control of the company's affairs, and all of this without the present investment of any money.

On July 31 Premier Bennett made his statement of policy to Parliament. He strongly condemned the Beauharnois corporation for its attitude of defiance to Government. Asked why the company was allowed to proceed with construction although its plans were not ratified, he replied that there were before his Government no plans submitted within one year of the passing of the order-in-council as the order had required, and that the company took the view before the committee that all it was doing was digging a ditch on its own land. To the layman this sounds like legal chop-logic, especially as the order stated that the approval there granted might be cancelled "in case of failure by the company to observe or perform any of the provisions and conditions" which were then imposed. Mr. Bennett seemed to stand more firmly on the national interest when he declared that further diversions than those granted would render the river unnavigable in its natural bed, and that the Navigable Waters Protection Act contemplated no such interference by order-in-council and without reference to Parliament. As to restitution of moneys which investors might think had been misused, he declared that the Government had no control as it could not institute civil proceedings. Criminal prosecution was a matter for the provinces, but as the deputy Attorney-General of Quebec had been

The Beauharnois Investigation

retained by the Beauharnois company, Mr. Bennett was "satisfied there will be none."

To deal with the situation for the moment, Mr. Bennett had two Bills passed. By these the right of the Beauharnois company to divert 53,000 c.f.s. was ratified by Parliament, and the canal and its appurtenances were declared to be "works for the general advantage of Canada." Exactly what this may mean it is hard to say, but it appears that the project will go on as a private enterprise with a re-organised management more agreeable to the Government and the banks.

There is little prospect of St. Lawrence power—one of Canada's greatest natural resources—being developed as a public enterprise. Mr. Bennett is sharply opposed to any tendency towards government ownership or management of business concerns; Quebec is hostile to public ownership; and even Ontario, with its great publicly owned hydro-electric system, seemed to many to play the game of private exploitation when the Hydro-Electric Commission contracted in 1929 to take 250,000 h.p. from the Beauharnois company at \$15 per h.p.—a price sufficient to yield a handsome profit. It was not the first purchase of power from a private company, and the Commission defended its action in a public statement. Among its supporters there has, however, been a display of considerable uneasiness, especially as the agreement seems to have come at a very opportune time in connection with the financial and political operations of the company.

Finally, it may be observed that the Beauharnois issue has once more raised the constitutional question of the respective rights of the Dominion and provincial legislatures. From the point of view of the ultimate destiny of the Dominion as a united nation, this is perhaps the most serious aspect of the whole problem. The British North America Act can be amended only by the Parliament in London, and while there is no doubt that any proposal by Canada whereby she would secure the right to amend

Canada

her constitution would be accepted in London, there is little evidence at present of a serious discussion of the problem in the Dominion. Powerful forces will be arrayed against any change in the present situation, because of fear of interference with minority and provincial rights. Under present conditions the Imperial Parliament may be called upon to face the difficult, thankless, and dangerous task of dealing with highly contentious constitutional problems for whose settlement the Canadian people should make themselves responsible. In spite of the clear intention of the Canadian framers of the British North America Act that the Federal Government should have strong powers in dealing with matters which it might consider to be of national importance, even although they lie entirely within one province, there has been a strong tendency in recent years to magnify provincial rights at the expense of Federal jurisdiction. This has shown itself in judicial decisions and in political pressure which could not be disregarded by either Liberals or Conservatives at Ottawa, especially as Ontario and Quebec, the two most powerful provinces, took the lead in pressing provincial claims. So far as the St. Lawrence is concerned, it is admitted in genera^l that the Dominion has the right to protect and control navigation, and that the provinces have the right to develop power; but legal questions of far-reaching importance with regard to ownership and jurisdiction are unsettled. In 1929 certain questions of principle with regard to power and navigation were submitted to the Supreme Court of Canada, but the answers were indefinite, and the order-in-council was issued in a haze of legal uncertainty. Mr. King's Government, while contending before the Supreme Court for extensive rights of jurisdiction, appeared to adopt a very much weaker attitude in dealing with the Beauharnois application. Without infringing the right of a province to power which might be developed within its borders, the Dominion Government might, it was felt by many, have retained

The Beauharnois Investigation

prestige and leadership with regard to a question of great national importance by refusing to deal with it piecemeal, and by seeking the co-operation of Ontario and Quebec in framing a national policy. Some of the reasons for the loss of that opportunity may be suggested by the story in the preceding pages. It remains to be seen whether the Dominion Government will regain the ground lost. The specific question with regard to Dominion-provincial rights in the Beauharnois project is to go to the Supreme Court. When that decision is given it may be possible to suggest what is meant by Mr. Bennett's Act of August 1, in which the Beauharnois canal was declared to be a work "for the general advantage of Canada."

Canada.

October 1931.

AUSTRALIA

I. THE STRUGGLE TOWARDS FINANCIAL REHABILITATION

THE period under review began bravely and optimistically enough, as may be read in the confident title of the Financial Emergency Bills which were introduced in all the Parliaments to carry out the resolutions of the Premiers' Conference in June. They were entitled measures "for meeting the grave financial emergency existing in Australia, re-establishing financial stability, and restoring industrial and general prosperity." The measures for implementing the Premiers' plan have now (with some exceptions which will be described below) passed into law. But the quarter has been one of disillusionment and anxiety, and none of the nation's leaders can see the outcome of our difficulties clearly enough to inspire us with courage and enthusiasm. Much has certainly been done already. But its effect has so far been negative rather than positive ; we have been bringing the drift under control rather than getting the vessel back to her course. This phase has doubtless been common to the period of recovery from all previous depressions. But this depression has been so analysed and anatomised for the sake of the elector, and its end hailed so often for his encouragement, that opinion has become peculiarly liable to impatience and disappointment. Australian opinion, moreover, is only now beginning to distinguish clearly between those causes of our troubles which are really within our own control and those which are not, and confusion of thought on this point has encouraged the man in the street to dream that once the

Struggle Towards Financial Rehabilitation

great public economies were made and budgetary equilibrium came into sight, there would be immediate signs of a return to industrial and general prosperity, heralded perhaps by financial aid from overseas. But the swift development of Britain's financial crisis dispelled this latter hope; an unhappy public began to realise at last that its sacrifices are not mere temporary adjustments to a sudden shock, but are only stages in the painful process of deflation towards a less expensive standard of life; budgetary equilibrium itself is still far distant. As the quarter closes, opinion is clutching desperately at the straws of hope offered by Great Britain's departure from the gold standard. If the new British policy brings to a head the whole problem of international debt settlement, it may offer to Australia, with other debtor countries, some prospect of relief. The other vital question, for Australia as for the agrarian communities of Europe, is whether the economic and social structure of the community can be held together pending an improvement in markets abroad.

The Conversion Loan

The Premiers' plan itself was fully dealt with in the last number of *THE ROUND TABLE*,* and it will be sufficient here to trace the main features of the attempt to implement it. Internal debt conversion and the reduction of all adjustable government expenditure (salaries, wages, grants and pensions) by 20 per cent. were to go on side by side. The conversion was controlled by the Commonwealth, since in the financial agreement of 1927 the Commonwealth has assumed liability for all State debts, and it was carried out in virtue of a variation of that agreement, signed by all the Premiers, and to be embodied in legislation by all seven Parliaments. The States have also had to pass legislation empowering trustees to convert securities held on trust. The amount to be converted was £556 million; securities on conversion were to be allocated among new

* See *THE ROUND TABLE*, No. 84, September 1931, pp. 895-903.

Australia

securities whose dates of maturity ranged approximately between 7 and 30 years, at an interest rate representing on the average a reduction of $22\frac{1}{2}$ per cent.; holders were urged to make definite application for the conversion of their holdings, but the Act provided that, unless actual dissent was signified, conversion would be automatic. The official appeal to bondholders was based solely on the financial difficulties of the Governments, and on the need for patriotic sacrifice from every section of the community, and the Act provided that holders who dissented should receive new securities maturing at the same date and bearing the same rate of interest as their existing securities. The result was eminently satisfactory; some £490 million was converted on application, and some £48½ million more by effluxion of time. This made up 97 per cent. of the total holdings. The holders of only the remaining 3 per cent. (£17½ million) dissented. The country actually had the welcome, though of late unhappily rare, experience of being cited in London as an example to be followed.

There remained the problem of what was to be done with the unconverted £17½ million. The treatment of dissentients had caused acute controversy at the Premiers' Conference in June, and the problem had been left unresolved at the instance of the leaders of the Opposition in the Commonwealth Parliament, so that no penal alternative might be threatened against dissentients, to mar the psychological effect of a voluntary appeal. At the same time, the Premiers' Conference made no attempt to conceal its determination that the sacrifice must be a common one, and that some way would have to be found of bringing in dissentients. "Although it is not specifically stated in this resolution," said Mr. Theodore, "it is agreed implicitly, and without any equivocation, that if people do not convert they cannot be allowed to go free of making a contribution to the national sacrifice." It was only on this express understanding that Mr. Lang agreed to the Premiers' plan. In the event, the vagueness of the future probably had a

Struggle Towards Financial Rehabilitation

greater coercive effect on bondholders than a specific threat would have done, and no holder supposed for a moment that if he dissented the Government would fulfil his contract to the letter. Penal taxation was freely discussed during the Conference; but a very considerable proportion of the dissentients is understood to have been made up of holders whose securities mature either this year or next, and who are concerned with the availability of their capital to meet other needs rather than with any interest they may gain in the meantime. There was, however, no promise to pay off the unconverted bonds, as there was in the Goschen conversion of 1889. But the Premiers' Conference was faced at the beginning of September with the sheer impossibility of finding an additional £17 million in the near future to pay off the unconverted bonds as they mature. It fell back on compulsion and decided that—except in cases of proved personal hardship, for which it was thought that ample provision could be made out of sinking funds—the dissentients should have their holdings converted compulsorily by Act of the Commonwealth Parliament, which may require some complicated legal adjustment. The step must be profoundly regretted. It must to some extent weaken the good effect caused by the voluntary character of the main effort. Nor is the small amount involved any real justification where the principle of repudiation is at stake. The only point that can be taken in support of compulsion is, that the consent of the holders of the other 97 per cent. gives the same kind of warrant for extending like terms to the remainder, as is given in bankruptcy proceedings when the court makes an order based on the consent of a large majority of the creditors.

Reductions in Public Expenditure

The reductions in adjustable expenditure were treated (except in New South Wales, which is dealt with elsewhere in this article) largely as a simple matter of arithmetic, and

Australia

while grants were reduced by an automatic 20 per cent., salaries were reduced on a scale more or less steeply graduated after the fashion of income tax rates. In the long run, however, indiscriminate economy of this sort may well turn out badly. If the reductions were to be temporary only, they would produce relatively little effect. But on the assumption that the country is now firmly set towards a deflation which will reduce general standards to levels comparable with pre-war days, a more scientific revision of expenditure seems called for. The whole Australian people, individuals and Governments alike, has indulged in many extravagances in the boom years, and the path of wisdom would now be to revise our activities in the light of what it is really worth while spending money on. Some things we have been doing we might now usefully eliminate altogether. In some directions, on the other hand, any reduction at all is folly, not to be justified even by reference to the plausible slogan "equality of sacrifice." It is a common error at the moment to think in terms of the persons on whom sacrifices are being imposed rather than of the work to be done, and the general sense of urgency obscures the long-term considerations, such as the extent to which salaries have in the past shared in the recent prosperity, which are essential to real equality.

So obsessing has the idea of "equality of sacrifice" become that the Parliaments of three States (New South Wales, Victoria and Western Australia) have included the Supreme Court judges in their scheme of salary reductions, on the same terms as members of the public service. The importance of preserving the independence of the judiciary was not so much overlooked as outweighed—with the support, it must be admitted, of a considerable body of public opinion—by the desire that no income should escape the general reductions. Thus, to reduce salaries, which have for the most part remained stationary for anything up to fifty years, may be both inequitable and even unwise, but is at least consonant with the spirit of the

Struggle Towards Financial Rehabilitation
time. The strongest objection to this breach of British constitutional tradition—and it has been vigorously expressed—is that a modern democracy needs, not less but more than ever, a judiciary which has nothing to fear, or hope, from Parliament. It is understood that in all the States the judges have themselves offered contributions from their salaries; of the justices of the High Court, interference with whose salaries is prohibited by the constitution, some have offered to accept a reduced salary, others to forgo their travelling allowances.

Only one of the Australian Parliaments (in Queensland) has ventured, in making provision for reductions of expenditure, to do what the Imperial Parliament has now done, to substitute reduction by Order in Council for direct parliamentary regulation.

The reduction in wages and pensions has earned, as was recorded in the last number of *THE ROUND TABLE*,* the vigorous disapproval of the Labour party organisation. The Labour Governments in South Australia, Victoria and the Commonwealth had to break down opposition not only in the parliamentary caucus but in the local and federal executives of the party organisation. Mr. Hill in Adelaide, Mr. Hogan in Melbourne, and Mr. Scullin and Mr. Theodore in Canberra were strong enough to proceed with the plan, though the malcontents in Adelaide succeeded eventually in carrying a motion for the expulsion from the party of all members who had supported it. A special conference of the federal executive of the party organisation (six members from each State) was called at the end of August to consider this proposal, but rejected it by 22 votes to 13. In June, the same body had declared its hostility to this part of the plan, but had recognised that, to bring about the downfall of the Labour Governments, would be disastrous to the party. The desirability of averting a split in the party was just as great at the end of August, indeed more so, as several elections are beginning

* See *THE ROUND TABLE*, No. 84, September 1931, p. 903.

Australia

to draw near. It was, therefore, not surprising that a compromise was again reached, though the South Australian branch seems determined to persist in its original policy. The federal executive again declared that reductions in wages, pensions and social services cannot be accepted as any part of Labour's policy, since they violate the substance of the ideals and principles for which the Labour movement stands; and it instructed Labour members, both Federal and State, that any further reductions of the kind must be resisted. This may perhaps be regarded as merely face-saving. The party organisation is not likely, at a time like the present, to risk the downfall of a Labour Government. The real significance of the resolutions passed at the party conference is rather to be found in the re-affirmation that the whole policy of deflation is wrong, and that the essential nature of the crisis is monetary and can be met only by a policy of monetary and banking reform. "Plenty of meals but no tickets," is one Labour journal's summary of the whole position. The left wing in the federal parliamentary caucus has begun to press again for the fiduciary note issue to which the party had pledged itself earlier in the year.

Reduction of Private Interest Rates

One other part of the Premiers' plan calls for mention—the reduction of private interest rates or, more precisely, reduction of interest on mortgages and on bank deposits and advances. Legislation to secure these objects has been opposed so tenaciously by the Legislative Council in Victoria, that the Victorian Financial Emergency Bill was delayed till nearly the end of September. The report of the Premiers' Conference had left the matter as follows :—

Concurrently with the reduction of bond interest must go a reduction in private interest. This is mainly a matter for the banks, who are co-operating to that end. Reductions of interest are being arranged between the Commonwealth Bank, the trading banks, and the savings banks, which will result in the rapid reduction in the interest on money required for trade and industry. This reduction

Struggle Towards Financial Rehabilitation

of interest will be supplemented by legislation giving relief to mortgagors. This legislation forms part of the plan.

The real ground taken by the Victorian Legislative Council was that, while recognising the necessity for the reduction of private interest, it thought that such reduction would inevitably be made at once in all proper cases as a result of discussion between debtor and creditor, and, in the long run, by the operation of economic forces; that legislative interference with private contracts was strongly to be deprecated; and that in any case the legislation actually proposed was clumsy and unsatisfactory. The Government, in reply, drew a distinction between bank rates and mortgage rates. Its defence of the legislation as to bank rates was that the trading banks in Victoria seemed to be holding back in part from the reductions contemplated by the Conference. When they offered a reduction of one per cent. in rates for advances by October, a compromise was adopted under which the banks were included in the measure, but the provisions were to have no operation until proclaimed, with the consent of both Houses. As to mortgage rates, the Government's defence was that it was pledged to implement the plan "one and indivisible," and that legislation for the relief of mortgagors formed part of the plan. It was, however, clear that the draft mortgage legislation had been adopted almost without discussion at the Conference, and that the legal difficulties involved had scarcely been appreciated. Indeed a certain inattention to the legal aspect of the exceedingly complicated operations involved in the proceedings was a marked feature of the whole Conference. This was due partly to haste, and partly to the fact that, though efficient legal advice was available, its value was reduced to a minimum by the failure of the Conference, till a very late stage, to agree on the more important points of policy. The Victorian Legislative Council's stand, unpopular as it has been, has probably done the community a service, since it has directed close attention to the measures adopted. The legislation has, in some

Australia

States (New South Wales, Victoria, Tasmania and Western Australia) proceeded by way of automatic reduction of interest rates, unless the mortgagee can satisfy a tribunal that, having regard to the relative position of borrower and lender, reduction is inequitable; in the other States (Queensland and South Australia) the onus is on the mortgagor to apply for a reduction, which he is entitled to get unless the mortgagee can show that it is inequitable. The scheme of the legislation provides generally for a reduction of 22½ per cent. in interest, but with a minimum interest rate of 5 per cent.

The Budget Position and General Rehabilitation

Ever since Sir Otto Niemeyer's visit, the real centre of political interest has been in the Premiers' Conference and the Loan Council (at present practically indistinguishable in personnel and identical in function) rather than in any of the Parliaments. In the quarter under review, their principal function has been the "policing" of the plan. They met early in August to consider, partly a request from New South Wales for urgent financial assistance, and partly the budget plans for the financial year 1931-32 in the light of events since June. New South Wales was accorded the advance required in order to pay civil service salaries, but only on condition that Mr. Lang came into line in implementing the plan. The possibilities of budgetary equilibrium were carefully examined, and the Loan Council before it adjourned took the significant step of appointing a standing committee of under-treasurers and economists to examine continuously, and report upon, the budgetary position of each State, and its conformity with obligations under the plan. At the same time a similar organisation was adumbrated for the Premiers' Conference in the form of a permanent secretariat. Its first task was to gather information and report to a subsequent meeting upon action to relieve unemployment. Here were two important processes at work—not merely the first definite step in the

Struggle Towards Financial Rehabilitation

transformation of the Premiers' Conference from a gathering into an institution, but a definite step also in facing the long-term problem of industrial rehabilitation.

The Premiers and Treasurers reassembled at the beginning of September to discuss the reports of the two committees. The budgetary position turned out to be disquieting. In June, allowing for such shrinkage of revenue as then seemed likely, the year 1931-32 was planned to produce a total deficit of only £15 million, which the banks agreed to finance. In September, it was clear that the deficit would probably amount in all to about £18 million; the New South Wales figures were only vague. Conferences with the bankers followed, but the banks would not undertake to advance more than £16 million for the year, leaving the Governments to make up the other £2 million either by fresh taxation or by fresh economies. As to unemployment and rehabilitation, the secretariat had had totally inadequate time to make a thorough analysis, but reported in grave terms. Employment cannot in the long run be increased, it urged, unless the country can export at world prices; it cannot even be kept at the present level unless the financial resources of the country are used to their limit to keep the wheat grower in production, to maintain the existing volume of employment on public works, and to provide or stimulate enough additional employment (*e.g.*, on gold mining, paper pulp and fisheries) to set moving the gradual revival of business and enterprise. The secretariat's report therefore contemplated both a long-term policy of reduction of costs, a review especially of all forms of government assistance to industry, and an immediate policy of stop-gap measures in order to maintain the country's economic and social structure for the time being. The report caused a good deal of public disappointment; to the unthinking, because it was so grave in its outlook; to the more thoughtful, because its immediate recommendations seemed to be to keep on the old disastrous methods. The banks, after anxious conferences, eventually agreed with

Australia

evident reluctance to grant still further credits, not indeed to the amount of the £16½ million, which the secretariat thought would be necessary, but at any rate to the extent of £3 million to provide a bonus of 4½d. a bushel on wheat of the 1931-32 season, and £4,250,000 for the first half of the financial year for public works already in progress. But, of course, nobody really expects a permanent solution along these lines, or from any action that can be taken within Australia herself. Without a rise in world prices the country is facing not merely a measure of default abroad, but collapse at home. In such circumstances the almost feverish interest with which the development of Great Britain's new policy is being followed, and its result canvassed, will be readily understood.

II. MR. LANG AND NEW SOUTH WALES

FROM its origin in 1891, the Australian Labour party has been strongest in New South Wales, and more particularly in Sydney. It might, therefore, have been predicted that in Sydney the party would produce its finest flower, its most logical and uncompromising leader. And, as Australians are fond of ideals but impatient of technique, Mr. John Thomas Lang only adorns the national type in showing himself more hearty in his zeal for the under dog than skilful in advancing his interests.

Since 1917 Australian Labour has become conscious of an affinity between the political regulation of trade and industry, slowly evolved as *socialisme sans doctrines* during the party's youth, and the economic philosophy of the Russian communists. Some of the inner group in the Sydney Trades and Labour Council have visited Moscow, and evidently share its hopes of a world-wide reconstruction of society. Possibly Russian example has confirmed the New South Wales branch of the Australian Labour party in its zeal for strict discipline. Certainly the distinguishing

Mr. Lang and New South Wales

mark of Mr. Lang's leadership in the present Parliament, as compared with his 1925-27 term of office, is to be found in the caucus of 55 supporters who, under pressure from the party machine outside, support with steady docility the policies propounded by the Premier. At times there are private mutterings of revolt, notably from Labour members for country constituencies. But there is no revolt. The division bells break in upon every Opposition speech which threatens to damage the Government's prestige, and at their call the caucus files in full force before the tellers.

To what end? In name the Bills put forward by Mr. Lang differ little from those of earlier years or of other State Houses to-day. Mr. Lang's proposals for a drastic extension of industrial arbitration, for confiscatory taxation of all but the most moderate incomes, and for reduction of salaries in the public service, suggest that he and his associates see somewhere in the near future the communistic objective of the classless society. Instead of equal chances to rise and "fair and reasonable" treatment for the less lucky, Labour now seeks to dispense altogether with middle-class leadership.

Mr. Lang's election programme in October 1930 was, it will be remembered,* little more than an assertion of Labour's will to maintain governmental spending. Under his premiership and treasurership, the maintenance of the standard of living was to be hampered neither by the Premiers' agreement of August 1930, nor by the Loan Council. It had been evident, however, even before his election, that neither London nor New York would keep up the flow of loan money that this programme presupposed. Mr. Lang was, therefore, thrown back on local taxable fields which the Federal Government was already denuding, and upon the lending capacity of Australian investors and banks. In December 1930, to the dismay of his followers, he raised his predecessor's unemployment relief tax on wages and incomes from 3d. in the pound to 1s. Even so it

* See THE ROUND TABLE, No. 82, March 1931, pp. 435-441.

was hardly adequate for the growing burden of the "dole." On June 15, despite all financial difficulties, the relief ration scales were increased by 25 per cent. Railway freights and fares, income taxation and every source of revenue continued to shrink, but Mr. Lang's commitments to powerful electoral groups did not allow him to check expenditure.

As he proclaims that the way out of the depression is to maintain the spending power of the public, he has been forced by the inadequacy of ordinary revenue to turn to any supplies within his reach. But such rough and ready methods as withholding from government creditors the money he needs for his civil servants and people "on the dole," have involved, either as a result of sheer rashness, or because incidentally he desired to destroy confidence in middle-class institutions, the closing for four months of the New South Wales Government Savings Bank. This bank, like all Australian savings banks, had been paying out cash at a steady rate ever since depression and unemployment set in. But in February the nerves of the depositing public were badly shaken by repudiation proposals* and by unchallenged press statements that the Government was not paying the interest that it owed to the commissioners. Withdrawals at once grew disproportionately greater than those from other savings banks, culminating in a violent "run" on the bank in April. On April 21 Mr. Lang asked the Commonwealth Bank board, who control the Commonwealth Savings Bank, to take over his bank. The depositors next day withdrew a million and a half pounds, and on April 23 the bank suspended payment with its cash reserves down to £214,085, although it had £7,218,469 "at call at the New South Wales Treasury," and £49,552,202 in securities, mainly of the New South Wales Government. Negotiations with the Commonwealth Bank went on for three months but eventually collapsed and, under pressure, Mr. Lang has reopened his savings bank under a

* See THE ROUND TABLE, No. 83, June 1931, p. 664.

Mr. Lang and New South Wales

new Act, a new board of trustees and a new guarantee against political interference. Though empowered to borrow £10,000,000 on debentures, the new board has still to find enough cash to set the cycle of deposit and investment going again. Otherwise the depositors' only hope still lies in the absorption and liquidation of the old bank's assets by the Commonwealth Savings Bank.

Whenever he has sought accommodation through the Commonwealth Bank and the private trading banks, the New South Wales Treasurer has been met by the need of accepting the control of the Commonwealth Government and the Loan Council. Before Mr. Lang's accession to office the New South Wales Government's bankers, the Bank of New South Wales and the Commercial Banking Company of Sydney, had stipulated that open overdrafts would not be granted, and that ways and means advances would be made only against definite securities, such as Commonwealth Treasury Bills. Mr. Lang, finding his credit balances with his own bankers on the wane, asked the acting Commonwealth Treasurer, Mr. J. A. Lyons, to approach the trading banks throughout the Commonwealth for "temporary accommodation." The banks, however, saw no good reason why they should aid and abet Mr. Lang in what seemed an attempt to evade the control of the Loan Council. Through the Chairman of the Commonwealth Bank board and the Chairman of the Loan Council, they notified Mr. Lang that all borrowing by governments, whether in the form of public loans, Treasury Bills or overdrafts, should be controlled by the Loan Council in accordance with the resolutions of the Melbourne Conference in August 1930.

Mr. Lang next sought to escape out of the net of unified financial control through an apparent gap in the 1927 financial agreement on State debts. The Commonwealth, by the terms of that agreement, assumed responsibility for the payment of interest on the State debts. Mr. Lang, prompted by his Attorney-General, set out to exploit the position by refraining from paying the Commonwealth.

Australia

Thus, surely, he thought, he would be able to use the interest money as "purchasing power" for his civil servants and unemployed. Who was to stop him? Would dog eat dog, and one Labour Government proceed to Federal execution against another?

Mr. Lang's default began on April 1. As he had calculated, the Commonwealth Government at once found in London £800,000 to meet the interest that should have been paid that day, plus exchange. Part of this sum, £243,000, the Commonwealth then recovered by stopping contributions from Federal revenue due to New South Wales under the 1927 financial agreement. For the balance the Commonwealth and the other five States issued a writ in the High Court of Australia on May 13. Further defaults by New South Wales, new payments by the Commonwealth, and writs in the High Court followed each other rapidly during the next few weeks, until the rest of Australia had paid to British and American bondholders £1,673,000 on Mr. Lang's account. The actions have not yet come on for trial, but the burden that Mr. Lang had cast on Australian shoulders generally provoked in April the long expected, and often announced, refusal of the Commonwealth Bank to finance further short-term borrowing, as a result of which the Premiers' Conference met last June and the first all-round attempt was made to secure balanced budgets. Mr. Lang's part in shaping the Conference plan was surly and contemptuous. The enemies who had so unreasonably thwarted his own plan were now, he claimed, slowly accepting it. He heatedly denied the contention in sub-committee of the experts, whose report formed the basis of the negotiations, that on New South Wales lay a special duty of retrenchment, in that she had maintained an exceptionally lavish standard of government. By furnishing on the last day of the experts' deliberations the barest outline of the contents of his not yet presented budget he had effectively cramped their analytical zeal. The Commonwealth and the less wealthy States

Mr. Lang and New South Wales

announced that they would faithfully cut down wages and salary rates by a fifth. By sheer effrontery Mr. Lang made use of the free hand left to each Treasurer in making this reduction to turn the whole policy of economy into a *reductio ad absurdum*. He proclaimed that he would spare the purchasing power of the people and look to the higher incomes for almost all the additional savings that he was going to make. The salaries of government servants, he announced, would be reduced and £500 a year would be the maximum.

This threat, however, was not immediately acted upon. On June 26 the Premier rushed through the Legislative Assembly an emergency taxation measure which, he professed, would raise £16,000,000 during the financial year 1931-32. Its schedules proposed fresh taxes on wages and salaries rising from 1s. in the pound on weekly incomes of more than four and less than five pounds, up to 5s. in the pound on weekly incomes of ten pounds and over. Similar levies were to be made on "company incomes" and personal incomes other than those derived from employment. "By taking from those in receipt of regular incomes who have a surplus, and employing the money in reducing our huge army of unemployed," said the Premier, "we shall achieve a position of true equality of hardship, but out of it we will emerge a solvent State whose feet are planted firmly on the road back to prosperity." "On the way to Sovietism, you mean!" interjected an Opposition member. "And a good deal better than now!" retorted a Minister of the Crown.

To the general relief, the Legislative Council rejected without hesitation this spendthrift Bill. This again brought the Premier into direct conflict with the Governor.* When the defeat of the Bill was imminent, Sir Philip Game had attempted to avert a demand for the "swamping" of the Council by suggesting a round table conference of all

* See THE ROUND TABLE, No. 82, March 1931, pp. 440-1; No. 83, June 1931, p. 666.

parties upon the lines proposed by His Majesty in the Irish crisis of 1914. The Government spurned this proposal, and the Premier requested Sir Philip Game to nominate a large number of new Councillors. The Governor refused. Mr. Lang's view is that it is a Governor's duty to accept his Ministers' advice in all matters, and that Sir Philip Game's conduct amounted to a denial of self-government to New South Wales. Accordingly the Premier referred the question at issue to the Dominions Office. The Secretary of State again refused to interfere, discreetly hinting that the matter seemed eminently one to be settled by the people of New South Wales. The Governor's view is that Mr. Lang has no mandate from the people of the State to pursue his present policy and does not, in fact, command popular support, and that his own duty as Governor is to ensure, so far as in him lies, that the forms of representative government are not used to flout the people's will. At one stage, indeed, the Governor even considered the possibility of exercising his legal power to dismiss Mr. Lang and dissolve Parliament, but he decided that such a step would be bound to provoke a popular outcry, and that it would be best to throw on to the Premier the onus of appealing to the people if he so desired. Mr. Lang has, no doubt for the best of reasons, shown no desire to go to the country. It is too early yet to estimate the full significance of the Governor's attitude in the present crisis, and it is always arguable that in the long run it is better to allow the whole weight of responsibility to fall on an electorate for the results of its own choice. But there can be no doubt that, for the moment, the Governor has vindicated his position under the constitution, and that his firmness has saved the State from total chaos.

Thwarted by both Legislative Council and Governor, Mr. Lang was nearly at the end of his tether. There would be barely enough for workers' wages, and nothing for the "blackcoats'" salaries when the civil service came to be paid on August 6. This was a bleak outlook for a

Mr. Lang and New South Wales

Premier who had promised over and over again a restitution to the service of even the 8½ per cent. that his cheese-paring predecessors had taken from it. As August 6 drew near, he hurled another parliamentary thunderbolt, the promised measure under which the salaries of Ministers, judges, members of Parliament and all public servants were not to exceed a maximum of £500 a year, and reducing all salaries between £260 and £580 a year by 20 per cent.

The critics of the measure had little difficulty in convincing the Legislative Council that Mr. Lang would do better to effect his savings on similar lines to those on which the Commonwealth and the other States had carried out their economies. Whereupon the Council amended the Bill, and Mr. Lang, in his hurry to obtain Commonwealth Treasury Bills from the Loan Council wherewith to pay his civil service, introduced a new Bill on the lines suggested by the Legislative Council. And so to Melbourne where, the Loan Council having relented, he got his Treasury Bills, and the Commonwealth Bank duly discounted them. Then, five anxious days late, the government servants received their pay.

He is a great optimist, however, who thinks that Mr. Lang has been brought to heel by the Loan Council, or that his budget for 1931-32, hurriedly presented on the eve of yet another session of the Loan Council, conforms to the spirit of the June Conference plan. It shows an estimated deficit of £8,300,000. This, Mr. Lang explained, would be reduced to £5,410,000 by "economies not yet worked out in detail." His published estimates bristle with items which cast doubt upon this pious hope. Incredible estimates of increased revenue, deliberate payments of wages and salaries in excess of those prevailing elsewhere, a determined refusal to reduce the pay of railwaymen and tramwaymen to the federal basic wage, these things hardly looked like a "genuine effort to reduce controllable expenditure."

So on he fares. If Mr. Lang and his very active associ-

Australia

ates at the Trades Hall are working for a communistic reconstruction, they certainly are doing so with a minimum of disturbance to the outward peace of society. Under the Lang régime, the New South Wales police, an admirable and impressive force, have a completely free hand in dealing with the attempts of professed Communists to aggravate the class-war by street rioting. The offers of a "New Guard" of "parlour militarists" to come to the assistance of the police in the event of disorder seem at the moment unnecessary, if not provocative. But there are subtler ways of altering the face of society than by blacking its eye!

III. MR. THEODORE AND THE "MUNGANA" AFFAIR

MOST Australians are heartily glad to have the Mungana affair, with all its disturbing effects, settled at last. It will be remembered that in July 1930*, Mr. Theodore resigned the office of Commonwealth Treasurer in consequence of the finding of Mr. Justice Campbell, a retired Supreme Court judge from New South Wales, and appointed a Royal Commissioner by the Queensland Government, that, along with others, Mr. Theodore, then Premier of Queensland, had been guilty of dishonesty in connection with the purchase by the Queensland Government of certain mining enterprises at Mungana. Mr. Theodore, who had not given evidence before the Commission, demanded that the Queensland Government should, by bringing proceedings against him, give him an opportunity of "confronting his accusers." After removing some legal difficulties, the Queensland Government brought a civil action against the four persons concerned (one of them another ex-Premier of Queensland, Mr. McCormack) claiming damages in respect of a conspiracy to procure by unlawful means the purchase of the Mungana mines by the Government at a price of £40,000, when they were worth only £10,000 at best, or, in the

* See THE ROUND TABLE, No. 81, December 1930, pp. 185-7.

Mr. Theodore and the "Mungana" Affair

alternative, in respect of a fraudulent sale by the defendants to the Crown. The case was heard before the Chief Justice, Sir James Blair, and a jury of four, and resulted in a unanimous verdict for all the defendants on both counts, the jury answering a series of twenty-five questions unequivocally in their favour.

The result is a happy one, so far as the purity of Australian political life and the public reputation of the country are concerned. The only regret that can be felt is that Mr. Theodore did not in the end "confront his accusers," in the popular sense, by going into the witness box. The verdict that the sworn advisers of the Crown were not guilty of any dishonesty or corruption is so satisfactory that it is perhaps a pity that it was not based on the fullest and most searching examination of all the evidence which could possibly have been obtained. The whole incident will probably have a beneficial effect on Australian parliamentary life as a whole. In a country where the population is small, where political feeling runs very high, and where government activities are so far-reaching, members of Parliament will have to consider more carefully with what industries they can with propriety allow themselves to be associated. It is natural, but regrettable, that Mr. Theodore and the Labour party should treat the jury's verdict as the triumphant exposure of what he himself has denounced all along as a campaign of political calumny and persecution on the part of the Nationalists. This aspect of the case will doubtless embitter the State elections in Queensland next year. But the defendants in the Mungana action undoubtedly had a case to answer, and the rumours of irregularities in connection with the purchase of the mines had been so persistent and damaging that it was the clear duty of the Queensland Government to have them fully investigated.

Australia.

October 1931.

SOUTH AFRICA

I. SOUTH AFRICA AND THE GOLD STANDARD

VERY shortly after it became known that Great Britain had abandoned the gold standard, it was announced on behalf of the South African Government that this country would not follow her example, but would remain on it. This intention has been reaffirmed on several occasions by members of the Cabinet in the strongest terms. The underlying motive inducing the Government to take this decision was probably partly political, for the present crisis provides a magnificent opportunity for demonstrating that South Africa is no mere economic satellite of Great Britain, but a fully fledged planet in the world system. In this case, however, economics and politics appear to be for once allied, and the general consensus of economic opinion in this country appears strongly to support the Government's action. Thanks to its gold mines, this country, as a whole, is less seriously affected by the depression than perhaps any other in the world; for although those sections of the community which depend upon export markets are suffering severely, the gold mines provide the majority of the population, directly and indirectly, with an assured market for their goods and services, and consequently with incomes which have hitherto shown comparatively little decline. White unemployment is estimated at no more than 20,000 to 30,000 out of a white population of some 1,800,000, and while deficits will be shown this year on the budgets of the central Government,

South Africa and the Gold Standard

the four provincial councils, and the State railways, the present burden of taxation, at any rate upon the moderately well-to-do, is comparatively light, and this section of the population could if necessary bear a considerable increase in direct taxation without serious hardship.

From the point of view of the balance of trade the position is also strong. The heavy declines in the values of farm produce, diamonds, and base minerals exported has been more than offset by reductions in imports (caused naturally and without recourse to panic measures such as import prohibitions), with the result that for the twelve months ending August, 1931, the surplus of visible exports over visible imports was £18,800,000 (South African), compared with an average during recent years of about £16,000,000 (S.A.).

The Union of South Africa is therefore under no direct compulsion to abandon the terra firma of the gold standard, and to adopt in exchange a standard based upon the economic and financial conditions of another country, and upon the politics and policies of an overseas government of uncertain composition, over whose actions she will have no kind of control. If South Africa were to exchange the gold standard for the English sterling standard, any tendency towards inflation in Great Britain would compel her to choose between either following blindly the policy of that country, or returning to gold, or maintaining a paper standard of her own, based neither upon sterling nor upon gold, but hovering in the void somewhere in between.

Another point which is frequently made is that, since not merely the prosperity but the very existence of South Africa depends upon the continued use of gold as a basis for currency by the great nations of the world, any step by South Africa which might, in however small degree, encourage the abandonment of this use of gold would be a step in the direction of national suicide.

Finally, the Government stands to reap a very substantial financial benefit from remaining on the gold standard.

South Africa

The interest charges on that part of the national debt which is held in Great Britain will be considerably reduced, the saving to the Government at the present rate of exchange being estimated at about £1,500,000 (S.A.) per annum. This saving will incidentally reduce still further the net surplus of invisible imports, already reduced appreciably by decreased payments for freight on imports and decreased dividends on diamond shares, to probably not much more than £20,000,000 (S.A.) per annum, compared with an estimated total of about £23,000,000 (S.A.) in 1929. The net "adverse" trade balance to be filled by foreign borrowings of new capital for the coming year should be less than £2,000,000 (S.A.), as compared with average foreign borrowings of about £7,000,000 (S.A.) during recent years.

While, however, the Government's decision is supported by the bulk of informed opinion, it cannot be denied that the break with sterling has caused several serious difficulties, some of which have yet to be overcome. This country has hitherto had no real foreign exchange dealings, rates having been determined by the simple method of adopting the latest rate quoted from London, modified as necessary by the current South African-London rate. The latter has for the past six years been almost absolutely fixed, with the English pound at a slight premium over the South African pound, due to the need for recouping the Reserve Bank for its expenses in shipping the output of the gold mines to London either in the form of bullion or of specie. Prior to the return to gold in 1925, when both Great Britain and South Africa were off the gold standard, the rates on London were fixed from time to time by agreement between the banks according to the supply and demand for exchange as shown by the alterations in their London balances. Now for the first time it has become impossible for the banks to determine the exchange rates on London with reference either to the cost of shipping gold or to the state of their London balances. South Africa has become

South Africa and the Gold Standard

an independent gold standard country among her peers, and is painfully learning to adapt herself to the responsibilities of her new status. In the absence of any existing financial machinery to deal with this unprecedented situation, there was at first almost complete confusion, which lasted until about the end of September, when, for the first time since the break, the South African-London rates were brought into approximate accord with the New York-London rates. As soon as this occurred it became possible for arrangements to be made to open up direct exchanges with other gold standard countries. The banks can now quote direct rates with New York, with the South African pound only very slightly below gold parity. Direct exchanges with Paris, Amsterdam, Rome, and other gold standard centres are now being arranged, and quotations on these centres will be possible shortly. These rates will, of course, remain practically stable, and will facilitate trade with these countries, while the frequent fluctuations of the rate on London naturally impose considerable difficulties on our much larger trade with Great Britain, especially as this country has as yet no forward exchange market.

On the whole, it is probable that the worst of the confusion is now over. But another and even more serious difficulty has arisen. It would appear that many South Africans believe that sooner or later the English pound will return to parity, or at least be stabilised at a figure considerably higher than that ruling at present, while there appears to be a growing expectation that South Africa herself will be forced off the gold standard in the near future. As soon, therefore, as English sterling was quoted by the banks at a substantial discount, a very large demand arose for transfers to London from people who desired to take advantage of the exchange rates to pay off debts, to provide for future payments, to obtain bargains on the London Stock Exchange, or even merely to obtain balances in London as a pure speculation. On the other

South Africa

hand, persons owning funds in England are tending to refrain from bringing them out in the hope that an improvement in the exchange will save them at least part of their loss. The banks have therefore found themselves selling large quantities of English sterling and buying very little. At this time of year the London balances of the commercial banks are about at their lowest ebb; these banks have therefore been saved any serious loss in the depreciation of the value of their London balances, but are, on the other hand, unable to meet any heavy drain of exchange. They have therefore been compelled to obtain supplies of foreign exchange from the Reserve Bank, which, on September 18, owned bills in London to the value of £6,427,000 (English). By October 9 the Reserve Bank's holding of bills in London, which forms the main foreign exchange reserve of the country, had been reduced to £765,000, though, on the other hand, gold to the value of £2,306,000 had been accumulated overseas, in addition to a normal amount of £5,730,000 held in the Union. The Bank's total reserve in London had therefore been reduced by £3,356,000, or more than half. If the demand for foreign exchange remains insatiable, this reserve may be entirely exhausted, and unless credits can be arranged overseas, the Reserve Bank may be compelled to refuse to sell more exchange. Gold would then be withdrawn, and as the Reserve Bank's holding within the Union already shows little margin over its legal requirements, the Government would be compelled either to suspend the Act or to authorise the Bank to refuse gold. The suspension of the Act would permit of the export of a further £5,500,000 (S.A.) of gold, but it is not likely that the Government would allow the legal reserve to be entirely drained before abandoning the gold standard.

The banks have been endeavouring to check the demand for exchange by attempting to restrict sales to "normal trade and personal requirements," but this policy has met with only partial success, and on October 10 a statement

South Africa and the Gold Standard

was issued by the Minister for Finance informing the public that this policy of restriction had his full support, and that all the resources of the State would be employed, if necessary, to keep the country on a gold basis.* While, however, restriction may check the drain to some extent, it cannot prevent it altogether so long as the public can withdraw gold from the Reserve Bank in Pretoria and ship it; while restrictions on the withdrawal and export of gold will, of course, be tantamount to admitting that the country is off the gold standard. It is still doubtful if the country will be able to avoid this step.

Even if the reserves of foreign exchange are able to stand the strain of the abnormal demand, the effect of the depletion of the resources of the commercial banks will probably be to compel these banks to restrict advances, bringing about a renewal of the financial stringency of two years ago, and ultimately a reconstitution of the depleted foreign balances by means of a further reduction in imports. If, of course, the present speculative demand for English sterling should be succeeded by a corresponding movement in the opposite direction, the reason for such a curtailment of imports would disappear.

Should this immediate exchange difficulty be overcome, there will remain the difficulty of import and export prices. Prices of raw materials in England have already risen almost sufficiently to offset the fall in the exchange value of the English pound. But the gold prices received by South African exporters of such commodities as eggs, fruit and dairy produce are likely to remain lower for some considerable time, while local manufacturers are already

* On October 29—since this article left South Africa—the Union Government announced a 10 per cent. export bounty, and a primage duty of 5 per cent. on imports, and latterly (see *The Times*, November 11, p. 19) has been making enquiries in various countries with a view to raising a loan of £10 millions for the support of the South African pound. On November 12 the South African Bank rate was raised from 5 to 6 per cent., and the next day the Transvaal Chamber of Mines (with one dissident) passed a resolution in favour of leaving the gold standard and linking the currency to sterling.

South Africa

preparing to complain of increased competition from English imports. Pressure is therefore being brought to bear on the Government from two sides, and while at present it seems determined to resist this pressure, it is impossible to say whether this resistance will be continued indefinitely.

Finally, if the English pound remains depreciated, but not restored to gold at a lower parity, the problem will sooner or later arise of obtaining foreign loans. Such loans could not well be raised in London, for, if the English pound should subsequently return to par, the South African borrower of English sterling would find himself owing £100 (S.A.) for every, say, £80 (S.A.) borrowed, while an English lender of South African currency would find himself owed only, say, £80 (English) for every £100 (English) lent. Whether this country could obtain its requirements of new capital in New York, Paris, or Amsterdam remains to be seen.

Postscript

Since this article was written the news has been received that Southern and Northern Rhodesia have left the gold standard. This development will add greatly to the Union's difficulties, for Rhodesia is the chief, and indeed almost the only, export market for Union manufactures, while, thanks to the Customs Union, the commercial relations between the two countries have been most intimate for many years. Southern Rhodesia uses Union silver coin, while Imperial silver circulates freely in both countries. Bank notes issued in Southern Rhodesia have hitherto been freely current in South-West Africa. The sudden disruption of these intimate ties cannot but cause much confusion and probably serious losses.

The Provincial Question

II. THE PROVINCIAL QUESTION

IN the last number of *THE ROUND TABLE** reference was made to the re-emergence of the provincial issue. It will be remembered that the financial difficulties of the provinces have made it necessary that the problem should be dealt with in some at least of its aspects, and that the Government extended to the Opposition (South African party) an invitation to an all-party conference for the formulation of an agreed policy, an invitation which General Smuts was unwilling to accept, if abolition was to figure on the agenda. It will also be remembered that in the past the Nationalist party has been the champion of provincial rights, that the South African party in Natal is almost solid in its eagerness to maintain its distinctiveness in the South African partnership, and therefore desires an extension rather than a restriction of the powers of the provincial councils, and that the supporters of the abolition movement have in the past come from the predominantly South African party urban centres in the other three provinces.

It has been clear for some time that those Ministers who have been brought most into contact with questions of Union-provincial relations have been veering towards abolition. The weaknesses of the system have come home to them in a manner which was not possible when they were in opposition. Administrative overlapping and confusion as between Union and provincial functions, the irritation caused by double taxation, the deadlocks resulting from a constitutional position in which executives are elected under proportional representation and not responsible to the councils that elect them—these things have created and strengthened in their minds a conviction of the inevitability of radical changes. They have come to regard the provincial

* No. 84, September 1931, pp. 909-911.

South Africa

system as a concession to weakness, an excrescence on the rounded smoothness of the constitution which must be pared away.

But having come to this conclusion, Ministers were faced with a threefold difficulty. First there is the attitude of Natal—historically never quite in the main current of South African life—conscious of being the distinctively British province, suspicious of many of the manifestations of nationalism, possessed of all the determination of a self-conscious minority to resist anything that might lead to its being swamped and overwhelmed. Now that is an attitude of which political wisdom must needs take account. Natal was a party to the compact of twenty-one years ago which is embodied in the Act of Union. It was, indeed, the only one of the contracting parties that insisted on the holding of a referendum before it accepted that compact. That compact is, of course, not buttressed in South Africa, as is the case with similar compacts in other lands, with the ramparts of a rigid constitution. The Act of Union possesses a high degree of flexibility, imposing but few restrictions on Parliament's freedom in the matter of constitutional change. In other words, the compact was one, not of strict law, but of good faith. But even so the constitution does mark the fact that the provincial system was regarded as one of the important parts of the compact—for it is one of those features a proposed change in which must be reserved for the King's assent. Now that of course, in 1910, meant that the Government in Great Britain, which would then have had to advise the King on such a matter, had the last word, that it could in effect be appealed to on the ground that the proposal was a violation of the compact and of good faith. To-day that is no longer so—the Government of Great Britain cannot advise the King in a matter affecting South Africa alone—reservation survives as a mere form. It is for South Africa herself to decide whether or not the compact of good faith has been broken. Her privileges have grown since 1910. But that very fact

The Provincial Question

connotes the growth also of her responsibility. The overriding by Parliament of the strongly expressed sentiments of one of the provinces—one of the partners to the compact—in an issue such as the provincial issue, is fraught with more, not with less, difficulty than it was twenty years ago.

Second among the difficulties in dealing with the provincial problem is the question of what is to come in the place of the councils if and when they are abolished. For, let it not be forgotten, the councils were "contrived a double debt to pay." They were a concession to the minority sentiment which favoured federalism twenty-one years ago—but they were also conceived as organs of local government. For in the whole of South Africa outside the Cape Province there were in 1910—and are still—no organs of local government except in the towns. Municipal government is in a relatively advanced stage in South Africa, but in the Transvaal, the Free State, and Natal there are no local government bodies in the purely rural areas—the hostility of the agricultural community to anything in the nature of local taxation, especially to a rate or a tax on land, has hitherto proved an insuperable obstacle. And since the central government of a country as large as South Africa could not deal with all the petty local affairs of the whole of its rural areas, the provincial councils and administrations were created to relieve it of that burden. As for their financial resources, these, apart from subsidies voted by Parliament, have come from taxation which has been borne chiefly by the towns. It is still only in the Cape Province that there is anything in the nature of a property tax outside the urban areas. Here, then, one of the difficulties in the way of abolition presents itself. After abolition—what next? A new and more extensive system of local government, or the concentration of the present provincial functions in the hands of the central government? The latter would mean a deplorable strengthening of the tendency towards bureaucratisation at which already South

South Africa

Africa has good reason to be alarmed ; the former, as soon as its implications are realised, is bound to evoke much opposition in the rural areas.

And that brings us to the third of the Government's difficulties—the party considerations involved. The Nationalist party is predominantly a country party, and as such its supporters have not been unduly conscious in the past of the burdens of the provincial system. As a party it defended that system in the days when the Smuts Government showed a tendency to impair provincial rights. How then was the Government to secure its support for a policy of abolition, especially when the inevitable realisation came that such a policy was likely to mean the imposition of new taxation burdens on a farming community already hard put to it ?

In the light of the above analysis of the difficulties, it will be obvious why the Government sought to remove the issue from the party arena. But having failed in that effort as a result of General Smuts's refusal of its invitation, it did not let the matter rest. It announced at the end of the session that the question would be dealt with during the recess. A month or two after Parliament rose it was bruited abroad that a policy had been decided upon. Ministers made cryptic references to their intentions ; the usual crop of rumours circulated ; gradually the stage was set for a declaration of policy, to be made by the Prime Minister himself at the annual Congress of the Transvaal section of the Nationalist party.

That declaration has to some extent cleared the air. It was, however, marked by hesitancy and a lack of precision. General Hertzog commenced by announcing that the Government had come to the conclusion " that the national interests demand that such changes be introduced as will centralise all necessary financial control under the Union Government." This, he went on to say, would entail the disappearance of the present provincial system, but he indicated " that provision should be made for an adequate

The Provincial Question

system of devolution of administrative functions in regard to certain local matters." As for Natal, the Government was prepared to take account of its strong local sentiment, and to give it the option of retaining the provincial system. The Prime Minister, however, gave no information about the financial conditions on which Natal might retain its provincial council—obviously a point of great importance—or about the nature of the proposed system of devolution of administration. He did, however, state that the Government did not intend to introduce legislation in the life of the present Parliament. The matter would be left for the country to consider, and no constitutional change would be made until after the next election.

Since the Prime Minister's speech the matter has been dealt with in rather more detail by the Minister of the Interior (Dr. D. F. Malan), with whom the legislative responsibility for such matters lies. Dr. Malan's speech marks an advance in two respects. In the first place, he announced the Government's intention to appoint a commission of inquiry to frame a detailed scheme for an alternative system of local government; in the second place, he quite definitely rejected the possibility of the complete centralisation of provincial functions. "The Government," he said, "will not countenance the further centralisation of administrative functions." And he went on to declare that "local bodies, locally elected, and with a large measure of local responsibility, are the bulwark of a nation's independent character." Moreover, he recorded what he described as personal convictions, which implied *inter alia* the extension of the Cape system of rural self-government to the other three provinces, together with the imposition of local financial burdens on the rural communities in those provinces which do not carry them to-day. Thus far have the Government pronouncements hitherto made taken us. It is clear that they have revealed, rather than solved, the difficulties. The suggested option to Natal, though it has drawn the fangs of the opposition

South Africa

from that quarter, seems a dubious expedient. It would have the effect of perpetuating Natal's distinctiveness, of separating it more than ever from the main stream of the Union's life, of recognising it almost as a South African Ulster. There is much, it would seem, to be said for postponing a final settlement of the provincial problem until Natal is ready to be treated just like the rest of the Union. Moreover, while Natal's opposition has been bought off, the Government's own supporters have been even more difficult to deal with than was anticipated. Both the Transvaal and the Cape Nationalist Congresses refused to pass resolutions approving of the abolition policy, and adopted dilatory motions instead. The almost exclusively Nationalist Free State provincial council has taken up a severely critical attitude. The Nationalist party is very far from being united to-day in support of the new policy. And with the realisation of the significance of Dr. Malan's remarks as to the system of local government which should replace the councils, opposition seems likely to harden. Of the general soundness of his views there can be no doubt. The absence of local government bodies in the rural areas with a reasonable measure of financial responsibility is to-day the chief weakness in the Union's administrative fabric. But with primary products at present prices the time hardly seems opportune for a move in that direction—and it may even be that the precipitation of the issue at the present juncture will retard rather than accelerate what is otherwise a very necessary development in South Africa.

It is as well, therefore, that the Government is prepared to hasten slowly. A commission of inquiry is to be appointed, and legislation is not to be introduced until after the next election, which in the ordinary course will not take place before the middle of 1934. Many things may happen between now and then.

The Problem of the Low Grade Mine

III. THE PROBLEM OF THE LOW GRADE MINE

AS the question of the gold supply of the world is at present one of importance, it may be useful to look at an aspect of the production of gold which is at present attracting public attention in the Union—that is, the problem of the low grade mine. Expressed in other words, the question is whether, and if so how, the present costs of production can be so far reduced as to enable large areas of gold bearing rock, the gold content of which is not sufficient to admit of mining on the existing basis of costs, to be brought within the limit of payability.

A Government commission is at present sitting to consider this question. It is not the first time that such a commission has sat, and, unless the report of the present commission leads to more practical results than has been the case in the past, it is not likely to be the last. The object of this article is not to attempt to anticipate any conclusions to which the commission may be led, but to call attention to certain facts bearing on the present costs of production as disclosed in the very full and carefully prepared statements laid before the commission by the Transvaal Chamber of Mines.

Public opinion in the Union has been slowly but surely undergoing a change of outlook in regard to the gold mining industry of the Transvaal and its place in the national economy. The traditional attitude of governments and the public towards the gold mines, outside the circles of these more intimately associated with the industry itself, has been to regard these deposits as a sort of wind-fall, a buried treasure of uncertain dimensions, which was being exploited and appropriated largely by foreign capitalists, and of which accordingly it was the business of the State and the public generally to get as large a share as

South Africa

possible while it lasted. As the years went on, however, the forecasts of an early exhaustion of the gold bearing deposits have one by one been falsified. The output has gradually risen to its present figure of over £45 millions (calculated on the present gold content of the sovereign), and round it and depending on it the State expenditure, and the commercial and industrial system of the country, has grown to its present dimensions. The question which is now being forced upon public attention, therefore, is not to what extent the industry can be held to ransom, so to speak, by the tax collector or the private individual, but rather what can be done to preserve the industry as a vital part of our national economy for the longest possible time with the maximum output of gold.

It is recognised, at any rate in theory, that the life of the industry is in the nature of things limited. From time to time estimates have been made of the probable rate of decline of the output of the mines, but the period which they have set to the maximum activity and the life of the industry has so often been exceeded by the actual facts of production, that the public in general ceased to attach any importance to them. Lately, however, the fact that certain of the older mines have actually closed down, and that others, including some of the largest, have been unable for some time to show a profit on working, has given rise to a certain amount of anxiety on this point. The latest official estimate predicts that in 1940 the value of our gold production will have fallen from its present figure of £45 millions to £25½ millions and by 1949 to £10 millions. A decline in the gold output on this scale would involve a diminution in the consuming capacity of the country which no one likes at present to contemplate, and for which no one at the moment can see any compensating factor. The salaries and wages bill of the Witwatersrand gold mines for 1930 amounted to £15 millions, while their purchases of stores and so on totalled over £14½ millions, of which over £9½ millions were of South African produce or manu-

The Problem of the Low Grade Mine

factures. For the business and industry of a small community such as ours the importance of these figures is obvious.

It is well known that there are very extensive areas of mineralised rock on the Witwatersrand which are not capable of yielding a profit on the basis of present costs, and much of which, if they cannot be worked in the near future, will, in all probability, never be worked at all, if existing mines through which they could be worked are abandoned, and the shafts and underground workings fall into disrepair. The estimate of future production, which has been already cited, was made by the Government Mining Engineer early in last year, and in connection with it he stated that it had been estimated that, if costs could be reduced by 2s. per ton of ore milled, there would be no appreciable diminution of output for the next eight or ten years. If we take that in conjunction with his own estimate of a probable reduction on existing conditions between 1930 and 1940 of £18 millions, the importance and urgency of the question will be appreciated.

The main directions in which the Chamber of Mines look in the evidence placed by them before the commission for a reduction in costs are the following :—

1. A reduction in the wages of European workers based on the reduced cost of living since they were last fixed.
2. A revision of the Mining Regulations which would permit certain classes of work on which the mines are now compelled to employ highly paid European labour to be done, with (as they contend) equal efficiency and safety, by lower paid classes of labour.
3. Reduction of certain forms of taxation and of railway rates which, they maintain, are at present unfairly differentiated against the mining industry.
4. A reduction of the burden which the industry is at present carrying in the matter of compensation to the sufferers from miners' phthisis.

On the question of wages the Chamber has suggested a

South Africa

reduction of 5 per cent. The workers concerned have so far shown no sign of accepting such a reduction, and it is very doubtful if the companies would be in a position to enforce it, or would be supported by public opinion in any attempt to do so.

The complaint against the regulations is that they necessitate the employment of numbers of European workers underground who are unnecessary for the purposes of safety and health. What is aimed at is, no doubt, a relaxation of what is known as the "colour bar" regulations, which compel the employment of Europeans in certain classes of work where, if economical and efficient working were the only considerations, labour of a less highly paid type would be used. Here again it is more than doubtful if a demand for revised regulations would be supported by public opinion. It was the fear that the mines intended to replace European by coloured labour on a large scale that caused the disastrous upheaval in 1922. The present time, with unemployment existing on a serious scale, would not appear to be propitious for another test of public opinion on this question.

Differential taxation on the gold mining industry is in force in the case of income tax, which for mining companies is at the rate of 3s. in the pound as against a rate of 2s. 6d. for other companies. This is, of course, not an element in determining production costs, but it is complained of as a deterrent from the investment of capital in mining enterprises. Other imports which do affect costs of production are claim licences and native pass fees. The former constitute a form of taxation which has some justification in the case of claim-holders who are not actively working the ground held by them, but is quite an uneconomic form of taxing producing mines, as it is a mere addition to the costs of production bearing no relation to the results derived. The native pass fees are simply a *per capita* tax on the employment of native labour and have no justification except the amount of revenue that they

The Problem of the Low Grade Mine

produce. These two imposts together are estimated to involve a burden of about half a million pounds.

The complaint of the industry in regard to railway rates is briefly that the railway administration exacts inordinately high rates on the carriage of coal to the mines, and on explosives and other supplies required by them, in order to recoup itself for unpayable rates on the conveyance of other classes of goods—mainly agricultural produce. The complaint is one of long standing and is undoubtedly well founded. It is estimated that a revision of the railway rates on business principles, apart from political and other considerations, would lead to a reduction of £500,000 per annum in the rates charged on the stores used by the Witwatersrand gold mines.

The most serious individual burden on the industry is that involved in the compensation paid to miners suffering from miners' phthisis, and to the widows and dependents of miners who have died from that disease. This is borne wholly by the industry, and involves at present an annual levy of £800,000 which will probably in the near future have to be raised to £1,000,000. There is, in addition, an outstanding liability in respect of pensions to miners and dependents, the present value of which is calculated at about £8½ millions. This has to be provided for by the companies so that funds may be available for meeting these liabilities after the mines in question have ceased to operate. The whole of this burden is laid on the industry in accordance with the ordinary principle of workmen's compensation legislation that an industry should be made responsible for compensation for the death or disablement of its workers. But the fact that compensation in this case takes the form largely of pensions to sufferers and to their widows and dependents, and that this form of compensation was made retrospective, means that the existing mines are bearing the financial burden of the effects of disease incurred by mines that have long since ceased to exist. The incidence of the disease has undoubtedly been reduced by the elaborate

South Africa

precautions now enforced to secure healthy working conditions underground, and by the strict medical examination now required as a condition of obtaining employment underground. But, taking this improvement at its best, it will be many years before a material reduction of the total cost can be looked for. In these circumstances it cannot be wondered at that a strong claim is put up by the industry that the State should assume a substantial share of the burden.

There is no space in this review to deal with the question of the supply of native labour. At present, owing to adverse conditions in the native reserves, this is not a serious question. But from time to time a shortage in the native labour complement causes serious anxiety to the mining companies, and they are insistently demanding permission to extend their recruiting field to territories north of latitude 22 degrees South, from which they are at present debarred by law.

The capacity of the industry to carry the various burdens imposed upon it by the policy of past and present governments has been obscured in the minds of the public by the phenomenal richness of some of the mines worked in the early days, by the large fortunes amassed by some of the leaders of the industry, and by a general illusion of wealth which the production of gold on a large scale appears to create. To-day, fortunately, a saner view is possible, both of the importance of the industry as a part of the national economy, and of the effect of heaping unreasonable exactions upon it. The idea that these exactions only affected the pockets of a few mine magnates and oversea shareholders has largely given place to a more accurate appreciation of the advantage, indeed the necessity, of prolonging the life of the industry. It has been said with truth that the whole industry is a low grade proposition. The average gold content of the ore at present worked is not more than about $6\frac{1}{2}$ pennyweight per ton. Only the most scientific organisation, and the employment of the

The Problem of the Low Grade Mine

native for unskilled work, enable such ore to be worked at all. To relieve the industry of some of the unreasonable burdens which have been thrown upon it in the past, so as to bring within its scope extensive areas of at present unpayable rock, and to postpone to as distant a date as possible the inevitable period of its decline, has become one of the pressing problems of South African statesmanship.

South Africa.

October 21, 1931.

NEW ZEALAND

I. UNEMPLOYMENT

VALUABLE work was accomplished by Parliament during its emergency session in March and April, but this did not relieve it of the necessity of meeting again at the usual time for the second regular session. Unemployment, finance and the trade depression were the main burden of Lord Bledisloe's short opening speech on June 25, and a week had barely elapsed before the debate on the Address in Reply had to be interrupted to permit of the introduction of an Unemployment Amendment Bill as an urgency measure. When the principal Act was passed in September 1930, the number of registered unemployed was 6,099,* the Unemployment Board which came into existence on November 20, 1930, had been spending money at the rate of about £24,000 a week, and by the end of last July there was an estimated deficit of about £200,000. More liberal provision was, in consequence, needed to meet an increased and steadily increasing demand. The 1930 Act had imposed a tax of 30s. a year upon every male of 20 and upwards, and, in addition, a subsidy from the Consolidated Fund equal to one half of the expenditure was to be paid into the Unemployment Fund. Under the new arrangement this flat rate will be reduced to 20s., but there will be a charge on salaries, wages and other income, of 3d. in the £, to operate as an emergency tax for one year only, and, though women will continue to be immune from permanent taxation under the principal Act, they

* For full particulars of the Act see THE ROUND TABLE, No. 81, December 1930, p. 219.

Unemployment

will not, except in certain cases, be exempt under the amending Act. It is estimated that the revenue accruing to the Board from these sources for the year ending next July will, taking into account the £ for £ subsidy, amount to £2,185,000, which is nearly double the income (£1,200,000) previously provided. The increase shows the urgent nature of the problem involved. Nor was there any serious opposition to the new measure. The *Evening Post*, on July 3, took the same line as *The Times* had taken in its comments on the proposals made by the General Council of the Trades Union Congress to the Unemployment Insurance Commission on May 4.

Contributors are (it said) to be brought in irrespective of their risk of unemployment and, broadly speaking, made to contribute in inverse proportion to that risk. There is to be no relation whatever between the contribution and the benefit of the individual.

Yet, even the *Evening Post* did not withhold its support. It recognised that something had to be done, and done at once, and that the Bill was "the only Bill that could have been introduced" in the circumstances. It was, it admitted, necessary, in spite of its defects on the score of equity, to prevent the gravest hardship.

It must, however, be recognised that our unemployment scheme is not really an insurance scheme at all, and although considerable liberties were taken by the legislature with the excellent report of the Unemployment Committee,* this distinction was not lost sight of. On his return from the Imperial Conference the Prime Minister declared himself more strongly opposed than ever to the "dole," and the Commissioner, in his memorandum on the work of the Unemployment Board, emphasised "certain fundamental principles," in the following passage :

The Unemployment Fund (he reminded us) is made up by taxation levied over the whole of the community with certain few

* See THE ROUND TABLE, No. 79, June 1930, pp. 667-8 and No. 81, December 1930, pp. 219-21.

New Zealand

exemptions. It is not an insurance fund in the sense that there is a written contract specifying a premium and benefit. Beyond the fact that the funds must be used for the purpose specified, i.e., the provision of employment in various ways, no one is as of right entitled to any specific benefit. It is erected for the relief of the unemployed worker—the willing and able to work. It is not for the relief of any other kind of distress, caused by, say, age, infirmity, sickness, etc., nor for the relief of the farmer, the business man, nor for any other class than the unemployed worker seeking employment.

In the House of Representatives Labour members complained that the poor man was still paying too much and the rich man too little. But the rich man, in point of fact, pays heavily, not only through the emergency levy of 3d. in the £, but also through his graduated contributions to the Consolidated Fund which, besides supplying the Unemployment Board with half its revenue, pays liberally in other ways for unemployment. Relief works are moreover provided by the Public Works Department on a large scale, and on a smaller one by other departments. The figures of government expenditure under all heads last year are as follows :

	£		£
*Subsidy to Unemployment Board ..	159,247	Department of Lands and Survey ..	21,933
Public Works Department (including main highways)	1,249,446	Subsidies to local authorities ..	116,768
State Forest Service	85,000	Total	£1,632,394

The total expenditure for the last five financial years under these heads was as follows, during the calendar years which most nearly correspond to them :

Expenditure			No. of registered unemployed		
	£				
1926-27 ..	144,240		1926 ..	..	1,196
1927-28 ..	482,221		1927 ..	..	1,982
1928-29 ..	802,709		1928 ..	..	2,504
1929-30 ..	1,415,592		1929 ..	..	3,023
1930-31 ..	1,473,147		1930 ..	..	5,055

* This particular item was only for the last four months of the year.

The Budget

During the current year over £2,000,000 may well be spent, as the Finance Minister estimates an increase in unemployment subsidies alone of £1,110,000. The unemployed at the end of the March and June quarters numbered 38,028 and 45,264 respectively, and the 50,000 mark was passed on August 29. The total on September 14 was 51,234, which would correspond to about 1,500,000 on the British scale.

In view of the continuous rise in the unemployment figures for the last five years, during three of which the Reform party was in power, and of the abrupt acceleration in the rate of increase during the current year, it seems almost incredible—especially as the same thing has been going on simultaneously all over the world—that even the blindest partisan of the Reform party should still put down the cause of the trouble or of any substantial part of it to the change from a Reform to a United administration at the end of 1928.*

II. THE BUDGET

IN introducing his second budget on July 30, Mr. Forbes indulged in a characteristic understatement. He described the current financial year as "probably the most difficult in the history of this Dominion." If he had said "by far the most difficult," few of his countrymen would have contradicted him. External trade, upon which the prosperity of the country chiefly depends, had for the first time—especially during the last few months—felt the full force of the world depression, and every source of revenue was badly affected. The changes in external trade during the last four years are shown by the following figures :

* The most serious and least excusable of the United party's disservice was the Ward Government's application in 1929 of the award rate of wages (14s. a day) to relief works, in place of the 9s. previously paid to single men, and the 12s. 6d. to married men, but the original rates were restored by Mr. Forbes last April.

New Zealand

Year ended March 31	Imports £	Exports £	Total External Trade £
1928	44,419,000	54,962,000	99,381,000
1929	45,106,000	57,154,000	102,260,000
1930	49,168,000	49,046,000	98,214,000
1931	38,301,000	39,528,000	77,829,000

Exports for 1930-31 were, it will be noted, no less than £9,500,000, or 19 per cent. below those of the previous year, and £17,600,000, or 30 per cent. below those of the year 1928-29. The explanation given by the Minister of Finance was very much the same as last year.

The decline in the value of exports was (he said) due principally to a further sharp fall in prices, the "all groups" export prices index showing a decline of over 28 per cent. for the year. The falling-off in value, however, was not the result of a reduction in the actual volume of exports, considerable quantity increases being shown in butter, frozen meat, and gold. Wool was the only important item showing a reduction in quantity, but this was due not to decreased production but to the carry-over of stocks in anticipation of an improvement in prices.

The decline in exports was unprecedented, but the drop in imports—£10,867,000—was even greater, and the year actually closed with a favourable trade balance of £1,227,000. In Mr. Forbes's words,

The equilibrium in external trade has been largely preserved, but the general contraction in the value of this trade has seriously affected the public finances, as well as all internal business, either directly or indirectly.

Customs duties, always the largest item of revenue, naturally accounted for most of the drop. The total revenue for the year 1930-31 amounted to £23,069,000, £2,051,000 below the estimate and £2,281,000 below the figure for the previous year. Of this deficit customs accounted for £924,000, and next to customs came interest on railway capital, a shortage "due to an unprecedented falling-off in passenger and goods traffic." On the other side of

The Budget

the account the Government is entitled to credit for the fact that expenditure, £24,708,000, was £289,000 less than the estimate, which itself was £203,000 less than the expenditure for the previous year. But with a revenue of only £23,069,000, the net result was a deficit of £1,639,000. This was, however, a small matter in comparison with what might have been expected in view of the steadily accelerating rate of the decline for the last quarter of the year and the first quarter of 1931-32. In a detailed examination of the principal heads, Mr. Forbes gave reasons for supposing that all the revenue items were likely to shrink and all the expenditure items to rise. The following figures give the result of his calculation :

<i>Prospective Shrinkage of Revenue.</i>		<i>Prospective Increase in Expenditure.</i>	
	£		£
Customs	2,030,000	Unemployment subsidies ..	1,100,000
Land and income tax ..	600,000	Debt services	350,000
Stamp and death duties ..	690,000	Pensions	200,000
Beer duty	115,000	Subsidies to local authorities, etc.	125,000
Railway interest	930,000	Education	60,000
Interest on Public Debt Redemption Fund ..	165,000	General Election	75,000
Other items (net)	280,000	Decrease in credits to votes	130,000
		Other items (net)	250,000
			<hr/>
			2,330,000
		Less adjustment (equivalent to under-expenditure for 1930-31)	290,000
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	4,810,000		2,040,000

It was indeed, as the Finance Minister remarked, a "stupendous task," which faced the Government. With a steadily deteriorating market, they had to make provision for a prospective deficit equal to approximately 30 per cent. of the revenue for the preceding year, in other words, a gap of £6,850,000 had to be bridged. Of the measures taken to bridge it, the most effective and the soundest was the 10 per cent. cut in the salaries, allowances and wages of the public service, effected during the emergency

New Zealand

session. A sum of £1,390,000 was saved in this manner. The postponement of war debt payments under the Hoover plan, which Great Britain has "with characteristic generosity" extended to the Dominions, accounted for £870,000.

Some of the other expedients to which Mr. Forbes was compelled to resort were admittedly of a more dubious character.

The state of the public finances during the current financial year (he said) is probably more serious than at any time during the past fifty years, if not during the whole history of the Dominion. Further, the economic position generally is such that it is imperative that increases in taxation be kept down to an absolute minimum. Under these circumstances the Government considers that this is a time when any reserves that can be legitimately drawn upon should be used.

It is, of course, obvious that the word "legitimately" begs the question, but members, notwithstanding the fact that there is no guarantee that the necessity will not be even greater next year, were not disposed to be hypercritical. And so the process known at Westminster as "robbing the hen roosts," but which sounds better under Mr. Forbes's more dignified title of "utilisation of reserve funds"—"convey" the wise it call—met with no serious challenge. Upwards of a million was obtained in this way—£550,000 from the Reserve Fund in London and £590,000 from the Discharged Soldiers Settlement Depreciation Fund. The full "summary of savings" was as follows:

	£
Reductions in salaries and wages	1,390,000
Benefit from suspension of funded debt payments ..	870,000
Other economies in expenditure	595,000
Post office surplus and other additional revenue ..	936,000
Use of reserves	1,140,000
Subsidies to local authorities, etc., to remain a charge on highways account	125,000
	£5,056,000

But even so £1,794,000 was still needed to balance the budget, and to find it it was proposed to raise £730,000 by

The Budget

increasing the income tax. There was a 10 per cent. increase in this tax last year, and this was to be increased to 30 per cent. Further, the general exemption of £300 was to be brought down to £260, and in place of the more liberal scale hitherto prevailing, this exemption was to be reduced by £1 for every £3 of incomes between £260 and £560 and by £2 for every £3 of incomes between £560 and £800. The residue of £1,060,000 was to come from customs and excise, and the necessary provision was made by a series of resolutions passed immediately after the introduction of the budget. The most important tariff increases were tea 3d. per lb., sugar ½d. per lb., imported beer 1s. per gallon, cut and plug tobacco 1s. 4d. per lb. In the case of apparel, hosiery, carpets, etc. preferential and general rates were increased by 5 per cent. *ad valorem*, and in that of furs and silk piece goods, 10 per cent. was added to the preferential and general tariff rates. A primage duty of 3 per cent. was imposed on all goods otherwise free of duty, and the excise duties on cut and plug tobacco were increased by 1s. 4d. per lb., and those on beer by 6d. per gallon. The amounts expected from the increased duties (excluding the beer duty) were summarised by the Finance Minister as follows :

Amount to be collected from duties hitherto in force	£ 6,500,000
Amount expected from new duties on the under-mentioned articles (including surtax)—	
Tea	92,000
Sugar	220,000
Tobacco	180,000
Silk, imitation silk and artificial silk	42,500
Apparel and hosiery	86,000
Chinaware, floor coverings and gramophone records	62,000
Other items	47,500
Primage duty	180,000
	£7,410,000

After making allowances for these increases in taxation

New Zealand

and the above-mentioned economies and adjustments, the revenue for the year will, it was estimated, be as follows :

	£	Interest receipts—	£
Customs	7,410,000	Railway capital ..	930,000
Beer duty	650,000	Post Office capital ..	535,000
Film-hire tax	50,000	Public moneys ..	745,000
Motor vehicles—Duties		Public debt Redemp-	
and licences	1,760,000	tion Fund	820,000
Stamp and death duties	3,140,000	Miscellaneous—	
Land tax	1,100,000	Post Office Surplus ..	1,090,000
Income tax	4,230,000	From Reserves ..	1,140,000
		Other	1,346,000

The estimated grand totals for the year are as follows :

	£	£
Revenue		24,946,000
Expenditure—		
Permanent appropriations ..	17,679,904	
Annual votes	7,083,877	24,763,781

which leaves a surplus of £182,219 for the purpose of supplementary estimates and other calls.

The proposals of the Government at once excited the uncompromising hostility of the Labour party. The leaders of the Reform party, however, felt that the issues were far too complicated to permit of any off-hand determination of their attitude, and the Reform press was, as a whole, remarkably free from captiousness. Mr. Holland opened the attack on behalf of the Labour party with the declaration that customs are the most unscientific kind of taxation if you want revenue, that taxing articles like tea, sugar, linoleum and gramophone records meant putting the burden on the shoulders least able to bear it, and that the Government, which had promised to do its best to bring down the cost of living, was doing exactly the opposite. "An attack on the breakfast-table of the people" was, said another Labour member, the most remarkable feature of the budget. (The additional amounts to be raised by direct and by indirect taxation respectively are £780,000 and £1,000,000.) Mr. Forbes's reply was

The Budget

that the Government considered the method he proposed the fairest way of raising the money. It had, he continued, been said,

that the cost of living would be raised, but it had already fallen considerably since July 1914—and the full effect of the 10 per cent. cut had not yet been felt. The new duties on sugar would make a difference of 0.48 pence only. . . . The Government had not set out on a protective policy, but to obtain additional revenue.

In so far as the press is concerned the eulogy of the *Christchurch Times*, a United organ, and the unqualified detraction of the *New Zealand Herald*, a Reform paper, may be taken as representing the two extremes, but any lack of generosity in Reform journalism was fully redeemed by the *Christchurch Press*, which, though a thorough partisan of Reform, prefaced a by no means uncritical article with the following personal tribute :

It is due to the Prime Minister that the first thing said about the budget should be that it shows considerable courage. As he defined it, his problem was to cover a prospective shortage of almost £7,000,000 ; and he chose to do it in a single effort. He might have budgeted for a deficit. It is possible now to argue that this would have been the wiser course, and events may prove it with a very bitter logic ; but the Prime Minister's choice has at least these great merits. It will undoubtedly support the Dominion's credit and reputation at home, where both are worth money and a great deal more than money. It shows that the Government, having accepted relief to the extent of £870,000 from British taxpayers, is not going to be indulgent to its own. And third, there is the very strong point that in budgeting determinedly for a balance the Government spares no section ; while budgeting for a deficit would have provoked one section or another, or all sections, to complain of insufficient relief.

The wide-spread admiration which Mr. Forbes's courage and candour evoked also finds expression in an article entitled " a needs-must budget " in an Independent journal, the *Evening Post*.

A budget which adds 20 per cent. to income taxation and over a million sterling to customs and excise duties is a fair target for

New Zealand

Opposition criticism. But at least this praise must be given to the Prime Minister: he has set himself a goal and has gone forward to it with unflinching determination. On the eve of an election he has resisted all temptation to temporise. He has given his opponents ample ammunition to use against him. In the budget there is not one promise of favours to come; only the prophecy that if the people will face their difficulties with enterprise, thrift, and honest work they will soon reach a road leading to greater happiness and prosperity. This does not seem much to set against an additional £1,800,000 of taxation, and against the economy measures which may yet make greater inroads upon those government services which the people have become accustomed to expect. But can any other party honestly promise more?

III. COALITION AT LAST

THE movement for the amalgamation of the United and Reform parties has already been described in these pages.* Three months ago it seemed to have reached a deadlock. Mr. Forbes, thanks to the loyal help of the Reform party, had, in spite of bitter opposition, just come through the emergency session with a fine legislative record and great personal credit, and he publicly extended to the Reform party and "others who have the interests of the Dominion at heart" an invitation to combine in order to form a national party to govern the country. On May 6 this invitation was peremptorily rejected by Mr. Coates. He proposed, however, that a small committee of his party should confer with Ministers before the introduction of new legislation. Three months later the matter appeared to have been carried no further. There was certainly no sign in the Reform organisation of disagreement with the attitude of their leader. A considerable body of independent opinion, however, which is not usually unsympathetic to the "Reform" cause, expressed its strong disapproval, and weighty memorials were sent Mr. Coates by business men, especially from Auckland and Wellington, urging him to reconsider his

* See THE ROUND TABLE, No. 84, September 1931, p. 928.

Coalition at Last

decision. His reply to a memorial from Wellington was published on August 18. The following extracts give its substance :

I find (wrote Mr. Coates) that the Reform party still holds the opinion that coalition, under existing political conditions, with the United party, either for general political objects or the formation of a Government, would not result in real union or promote stable government, and would not be of advantage to the country, which should be and is our first consideration. Parliamentary history provides precedents of similar combinations of political parties, but all have proved to be transitory and without stability or permanence. . . . After careful examination of the position, we feel that there is no practicable adjustment of the parties at present in the House which could give the strong government we and you equally desire. This object can be achieved only by the electors themselves at the next election.

Mr. Coates did not explain what would happen if the old irrational three-party fight should continue and the result again be an inconclusive verdict on the part of the electors. Nor did he seem to realise the suspicion which he had brought upon his party by his decision. Nowhere indeed was this put more clearly than in the *Press*, itself one of the staunchest of Reform organs.

It is absolutely imperative at present (wrote the *Press* on July 10, referring to Mr. Coates's vehement repudiation of the suggestion that he had been consulted about the Unemployment Bill) that those who approve the sacrifice should say so, and it would be a calamity if the impression were created that the Reform party is less eager to say so than it ought to be. Mr. Coates will have to be very careful if he is to prevent this impression from deepening. The Reform party is committed to co-operation so far as that can be given without violence to its principles, and while there can be no doubt of its help during what remains of this session, it must not allow anyone to say, or anyone to feel, that its real concern is with what follows the session.

Mr. Coates is in a more difficult position than the leader of any party has occupied within the memory of those still in New Zealand politics. The fusion offer, whether this was simplicity or craft, contained nothing when it was carefully examined but a suggestion that one leader should hold the other's hand while both took a leap in the dark. But very few people examined it carefully, or have

New Zealand

examined it yet. . . . The danger (at the election) is not that a majority of the people want a Socialist Government. It is that those who do *not* want socialism may not have a clear opportunity of saying so. The danger that particularly threatens the Reform party is the fact that, if it is not very careful, it will find itself in a position in which it appears to be risking the fate of the community in a gamble for victory and power.

There is no reason (the writer went on to say) why Mr. Coates should not propose some common meeting ground, or at least indicate more plainly that he is willing to join in the search for one.

If he had done it sooner one might have supposed that Mr. Coates had this wise advice in view when, on August 21, he sprang a pleasant surprise on the country by moving the following resolution :

That, in the opinion of this House, the serious economic and financial position of this Dominion necessitates urgent and immediate action to cope with the fall in national income, as revealed by the latest figures, and the consequences arising therefrom ; that, with this object in view, it be a recommendation to the Government that representatives of the political parties should be called together in order to decide what remedial steps should be taken to adjust the national expenditure and to provide for equality of sacrifice and a proper distribution of the burdens ; that in arriving at its conclusions this committee should obtain the best expert advice and assistance from financiers and others ; that in order to enable such inquiry to be carried out Parliament should be adjourned for a short period and further consideration be given to the position when the committee reports to the House or the Government.

In ordinary circumstances such a resolution would, of course, have raised a question of no-confidence, but on this occasion it took the very line that the Prime Minister himself had suggested. Mr. Coates, moreover, explained that he had consulted the Prime Minister and the Leader of the Labour party before moving it. The main points in his speech were as follows : *

The Reform party had had (he said) many conferences during the last fortnight before reaching a decision. There were two courses open to the party—one to go to an immediate election and

* See *The Evening Post* of August 21.

Coalition at Last

the other to arrive at the decision he had indicated. It was felt that it would occupy two months at least to go to an election, and the Reform party had decided that the time had arrived for all parties in the House to come together in an endeavour to meet the position. Therefore the suggestion that representatives from each party should meet in conference and with assistance of outside experts draw up a plan appeared to be the best course. . . . One of the reasons why the Reform party was so concerned was that it had been receiving S O S signals from farmers and others whose position was desperate. . . . They would be lucky if they were able to maintain the present prices.

He did not mean anything in the nature of pessimism, but just to indicate that the parties in the House might with advantage be called together to consider the whole position. There were those who said that New Zealand was in a better condition than Australia, and that was no doubt so, but there was a danger that the Dominion would drift into the position Australia was in. There had been a tremendous drop in imports, and even with the increased customs tariff it was doubtful whether it would reach the estimate. That factor must increase the difficulty of balancing the budget. The income tax estimates for the year appeared to be optimistic. The railway accounts showed a severe and alarming falling off. Then, members had to consider the strong probability of a difficult situation next year. . . . The Prime Minister had discussed the position with him, and also the Leader of the Labour party, and he was indebted to both Mr. Forbes and Mr. Holland for placing the matter before the House.

Mr. Forbes, on behalf of the Government, welcomed and seconded Mr. Coates's motion.

He could not (he said) but agree with the conclusion which had been arrived at by the Leader of the Opposition. He had felt for a long time that the financial position of the country could not be dealt with by a minority Government. First and foremost there was the question of the farmers' finances, and as the whole country's welfare depended on that industry, they must realise that everything hung on the welfare of the primary producer. That was a problem which loomed up very large. There was no doubt that the farmers' difficulties were multiplying and that they would go on multiplying, and that the House would have to give serious consideration to that problem. The Government's budget was a straight-forward and honest budget, but there was a serious weakness—the use of the reserves. When that happened it was necessary that they should have some plan for the future.

He looked upon the committee as a very valuable contribution

New Zealand

to what should be done to meet the situation. The question of a plan for the future was very pressing. He thought all agreed that more definite measures should be taken than had already been adopted to meet the position. He welcomed the fullest investigation of the finances—public, local body, and private—by an independent committee, and if it brought down recommendations the House would have to consider them very seriously. He suggested that the committee should consist of three members from the Government, three from the Opposition, three from the Labour party, and one from the Independents. . . . One of the matters that the committee would have to look into would be the means of putting the measure through Parliament. The committee would also have to take into account the postponement of the elections. Labour voices: "Oh!" Mr. Forbes said all questions facing the country, including the postponement of the elections, would come before the committee.

Mr. Holland announced that the Labour party would readily assent to the motion except that he did not agree to the proposal to adjourn the House. He also took strong exception to the Prime Minister's suggestion that the general election, which is due in November or December, should be postponed.

He hoped that no section of the House would give a thought to the postponement of the elections. There could be no more grave breach of confidence of the people, and the Labour party would vigorously oppose any such move. Nothing would do more to spread discontent amongst the people.

Mr. Coates was willing to meet Mr. Holland's objection to the adjournment, but he dashed any hopes that something better than inter-party consultation was in his mind.

His motion, he insisted, had not the intention of a national government; a national government to him meant nothing. The job was what position had we got into and what was the plan necessary to remedy the situation.

After the reference to the adjournment of the House had been deleted the motion was carried without opposition, and the following committee of ten appointed: for the

Coalition at Last

Government (United party), Mr. Forbes, Mr. Ransom, and Sir Apirana Ngata ; for the Opposition (Reform party), Mr. Coates, Mr. Downie Stewart, and Mr. Jones ; for the Labour party, Mr. Holland, Mr. McCombs, and Mr. Savage ; Independent, Mr. Wilkinson. The Committee held its first meeting on August 23 and spent about a fortnight in taking the evidence of bankers, financiers, economists, farmers, merchants and others. It then decided to devote the week ending September 16 to the preparation of its report.

Nobody was surprised at the failure of the parties to find common ground which Labour could also share, but few were prepared for the agreement between the two principal parties which the Prime Minister announced on September 18.

I desire to inform the House (he said) that the information given to the Special Economic Committee, which has been sitting for the past few weeks, has disclosed the necessity for immediate action being taken in regard to the finances of the Dominion. I am therefore pleased to announce that, as a result of conferences between representatives of the Opposition and the Government parties in the House, it has now been agreed to form a Coalition Government from the two parties. It is not possible for me to make a fuller statement at this stage, but I hope to be in a position to inform the House of the details and final arrangements on Tuesday next.

On a motion for adjournment Mr. Holland and other members of the Labour party expressed a good deal of indignation at the Prime Minister's announcement, mainly on the grounds that the Committee, as its name proved, had been appointed "to deal not with political considerations but the economic conditions of the country;" that the deliberations of the Committee had been broken off by a purely political arrangement ; and that the intended postponement of the elections would amount to "a temporary political dictatorship" which would provide "all the elements for insurrectional movements." But the chief interest of the debate turned on Mr. Coates's attitude, for he had the key of the position the whole time in his

New Zealand

own hand, and he had now put it to a use which he himself had apparently regarded as out of the question only four weeks before when he moved his motion. The crucial passages in his statement were as follows :

I as Leader of the Reform party am opposed and have been opposed to anything in the form of fusion, or shall I say coalition. My statements to the country were clear, and I was sincere in those statements. But the nature of the evidence placed before the Committee was enough for any man to be concerned about the immediate welfare of this country unless the problems were tackled immediately. Those problems must be tackled with determination and absolute fairness to every citizen of the country, and on a policy or programme calculated at least to bring about stability, confidence and, I hope, rehabilitation to the country. While we are discussing elections, while we are discussing this policy and that policy, we are not getting anywhere, and it is only from a very strong sense of public duty that I have asked my supporters and candidates—and they are behind me to a man—to carry through a programme of legislation the nature of which has been discussed with members of my party and with the Prime Minister and his group, and there is general agreement as to the necessity for action being taken without any further delay. If we fail to take that action we shall be neglecting our duty to the people of this country. . . . It must be remembered that this arrangement which has been made is a combination which does not destroy either party. Since it cannot be a national arrangement it is a coalition for the purpose of passing legislation that both parties deem essential and necessary in the interests of the country.

Mr. Forbes will, it is announced, still be Prime Minister ; and Mr. Coates Leader of the House. The number of Ministers will be reduced from 14 to 10. It is, however, already obvious that an effort will be made by Reform die-hards to minimise the benefit of coalition by preventing the postponement of the general election, and thus limiting the term of the new Government to about two months.*

* On September 22, the day after this article left New Zealand, the Forbes-Coates Government was sworn in, with Mr. Forbes as Prime Minister and a Cabinet of ten. Mr. Forbes explained that it was necessary to have a strong Government to take immediate steps towards financial rehabilitation. The postponement of the election was a matter for the new Government to decide. Parliament would adjourn till October 2, and the Government would announce its full policy on October 6. Some of the proposed measures, Mr. Forbes added, could not wait for a general election. On October 23 Mr. Forbes announced that it had been decided not to

The Statute of Westminster

IV. THE STATUTE OF WESTMINSTER

"**N**O carping criticism" were the words used by Mr. Coates in describing New Zealand's attitude towards Great Britain on the eve of the 1926 Imperial Conference. In exactly the same spirit Mr. Forbes, though an opponent of Mr. Coates in local politics, declared that New Zealand had "no complaints and no demands" to bring before last year's Conference.

I wish (he said in the House of Representatives on August 17, 1930) to make it plain at the outset that the present Government share in no less measure than previous Governments the traditional attitude of New Zealand towards the United Kingdom. We value very highly our continued association with the Mother Country, and it is our wish to maintain this association as close and as intimate as possible both politically and economically. . . . We have not in any way been embarrassed by the terms of our association with His Majesty's Government in the United Kingdom, nor have we been restricted in the control of our affairs.

It is not disputed that Mr. Forbes, New Zealand's representative at the 1930 Conference, was true to the spirit of this declaration, and faithfully maintained the tradition established by all his predecessors, regardless of party. The only complaint against him is that he gave an exaggerated idea of the importance which New Zealand attaches to Imperial preference, and that he interfered at times in a controversy which is a burning issue in British domestic politics, in a manner which no British Minister would dream for a moment of imitating where a Dominion was concerned. Certainly the public opinion of the Dominion would not tolerate it if he did. The second, and the more important, of these criticisms was well put by Mr. Downie Stewart during the debate on the report of the Imperial Conference on July 21.

My view of the matter (said Mr. Stewart) is that he (the Prime Minister) postpone the general election. The Government felt it imperative that its policy of sound finance should have the country's emphatic endorsement. Mr. Coates announced that the Reform and United parties would not break apart for the election campaign. It is believed that the election will be held on December 9. (See *The Times*, September 23 and October 24, 1931.)

New Zealand

Minister) and his colleagues were quite entitled to put forward their viewpoint; but, when it meant going right across the traditional free-trade policy of Great Britain, it was a little hard on the British Ministers to be openly accused of wobbling and quibbling. That appeared to me not to be very good form. Supposing an Imperial Conference were being held in Australia or New Zealand, and the representatives of Great Britain urged us to remove all our customs tariffs, and, on our refusing to do so on the ground that it was our traditional policy to raise revenue and protect our industries by a tariff, they indulged in remarks such as were used in England by some of the Dominion Ministers. I do not think that would tend very much towards promoting Imperial unity.

With this exception, however, the propriety of the Prime Minister's attitude was not impugned, and the harmony of the general approval was marred by no party differences. His action with regard to the Statute of Westminster was not merely approved, but highly commended. Not a voice was raised, either in the Legislative Council or in the House, to claim for New Zealand the powers which are to be extended by this Statute to the other Dominions. Yet both Chambers were able unanimously to pass the petition to the King advocating the Statute, because, at the instance of Mr. Forbes, New Zealand had been specifically excepted from its operation until such time as she elects to adopt it, a provision which elicited a handsome compliment from a political opponent of Mr. Forbes.

The exception of New Zealand from the effect of the Statute which is to be passed at Westminster (said Sir Francis Bell in the Legislative Council on July 23) is a tribute to the loyalty of this country, and a still greater tribute to the men who have had the courage and foresight to advocate it. I am sure that, in days to come, my honourable friend the Attorney-General will have the enduring satisfaction that he, as must be the case, advised, and the Prime Minister adopted, a provision in this Statute to be passed by the Imperial Parliament at Westminster which has the effect of declaring that New Zealand is not one of the Dominions that seeks to hold power or right beyond her territorial limits, or to enter into relations with foreign Powers except through the ambassadors of His Majesty.

New Zealand.

September 24, 1931.

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